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the Government the Market and the Poor

David Osterfeld

WHEN one argues that the government has become too large and ought to be reduced inevitably the first question that comes to the minds of most people is: what would happen to the poor? This is certainly a legitimate question. What would be the condition of the poor if all government "poverty" programs were abolished?

An accurate assessment of the impact of such a change in policy can best be obtained by dividing this broad question into two parts: (1) what is the *actual impact* on the poor of existing government policies and (2) what would be the *probable impact* of a program of laissez-faire?

This paper will attempt to deal with both of these questions.

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Part I: *The Government and the Poor*

1. The "Ideal" Model: The Way Government Is Supposed to Work

In the area of the market economy, or the "private arena," we are constantly told, the proper concern of the individual is with satisfying his own personal needs. Thus, in the economic arena the individual is assumed to behave *egotistically* in order to *maximize* his *individual utility*. In contrast, since the proper concern of government and politics, or the "public arena," is the well-being of the entire society, individuals in this arena are assumed (or perhaps "supposed" is a better word) to act *altruistically*. Politicians and government bureaucrats are not

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concerned so much with maximizing their own personal utilities but with maximizing "*social utility*," i.e., with pursuing something called the "public good."[1] Thus, the individual is divided, as it were, into two parts: the egotistical, which is given free rein in the private, or market, arena, and the altruistic, which dominates the public or governmental arena.

The ramifications of this "ideal" model for analyzing the politico-economic world are significant. In the competitive struggle that prevails in the open market between egotistically-motivated individuals, the economically strong, i.e., the wealthy, the well-educated, the cunning, and the unscrupulous, emerge as the victors, while the weak, i.e., the physically and mentally handicapped, ethnic minorities, the un- and under-educated, and the poor in general, are piteously ground underfoot. But since individual behavior in the governmental sphere is assumed to be altruistic, an important function of the government becomes that of helping the casualties of the economic conflict by adopting policies, sometimes referred to as the "bucket" method of eliminating poverty, which transfer wealth from the economic winners to the economic victims. Thus, according to the "ideal" model, while the egotistical behavior of the individual in the private, economic sphere creates poverty among the weak, the altruistic behavior of individuals in the public sphere serves to eliminate, or at least ameliorate, it.

2. The Problem: Assumptions about Individual Behavior

The fatal flaw in the foregoing model lies in the assumption that while individual behavior in the private arena is egotistical, that in the public sphere is altruistic. Regardless of how one believes that individuals *ought* to act, there is no reason to suppose that individuals *actually* compartmentalize their lives after the fashion of the "ideal" model. True, individual behavior is always a combination of egoism and altruism, with the particular "mix" of each not only varying from individual to individual but within the same individual over time. But it is unwarranted to assume that individuals act altruistically in one realm and egotistically in the other.

Surely, individuals can, and do, behave "altruistically" in the private arena, as is demonstrated by any voluntary contribution to a charitable cause. And just as surely, and far more importantly, individuals can, and do, behave "egotistically" in the public sector. Aside from the daily revelations of the scandalous behavior of many of those in the public arena—Watergate, Koreagate, Abscam, etc.—one has simply to note, after all, that to get elected a politician must try to convince a

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majority of the voters that *more benefits* will accrue to them from his election than from the election of his opponent. One may, as a Plato, or a Rousseau, adopt the moral posture of condemning such "egotistical" behavior as unsuitable for the "public arena," but it is scarcely deniable that such behavior is no less prevalent in the public than the private arena.

The recognition that "egotistical" behavior exists in both arenas entails an entirely different way of viewing government which, as we shall see, has significant ramifications for the "ideal" perspective.

According to this alternative perspective, which Professor James Buchanan has termed the "logical" or "individualist" model,[2] there exists no such thing as "the public interest." In fact, government, as such, has no "goals." Individuals and only individuals possess goals, which may run the gamut from purely selfish to purely altruistic. And just as the market is an *instrument* which the participants use to attain their goals, so government is viewed as an instrument which the participants in the political process try to use to their own benefit.

The critical question then becomes not, as in the "idealist" model, which type of behavior, egotistical or altruistic, or which type of goals, individual or social utility, ought to take precedence, but which instrument, the market or government, can best, or most efficiently, satisfy the needs and wants of the members of society. Economic tools, in other words, are brought to bear on the political process.[3]

3. The "Logical" Model: The Way Government Actually Works

The first thing to be noted in developing an alternative view of government is the fundamental difference between government and the market. The market is nothing more than the nexus of exchanges. Force is absent. Not only can anyone offer to make an exchange, anyone can refuse any offer. This means that for any exchange to occur, each party must value what he obtains in the exchange more highly than what he gives up. Thus market or voluntary exchange must, *ipso facto,* entail benefit to both parties.

In contrast, government is precisely that agency in society which claims a monopoly on the use of force. This unique position of government means that while it does not, in fact cannot, create wealth its monopoly on the use of force can be used to transfer wealth from one group to another. It is this aspect of government which makes it a potentially valuable instrument for any group or groups that can obtain control of it. An important question is: who is likely to obtain control?

(a) The Process of Politics. Even

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though based on different assumptions regarding individual behavior it might seem that the results of the "logical" model would be identical to those expected by the "ideal" model. Democracy means rule by the majority. And if those who are relatively poor are in a majority they should be in a position to benefit themselves by seeing to it that the government adopts and follows a policy of transferring wealth from the relatively rich to the relatively poor.

Reality, however, is far more complex. To understand the flaw in the foregoing we must look a little more closely at the concept of "majority rule." There is, in fact, no such thing as "the majority." Rather, each individual has various interests which he desires to see protected and furthered. Since single individuals seldom have much influence in the political process, those individuals who possess the same or similar interests tend to join together to form interest groups, such as the National Association of Manufacturers (NAM), the AFL-CIO, the National Organization for Women (NOW), etc.

The purpose or goal of the interest group is, of course, to advance the interests of its members. This can be done in any number of ways but one of the chief means is by influencing government policy. Thus, labor groups like the AFL-CIO desire such things as increases in the minimum wage, closed or union shops, or a national health care program; business groups, like the NAM, the Fatty Acid Producers Council, or the Underwear Negligee Association, generally push for such things as subsidies or licensing restrictions to shield themselves from domestic competition and tariffs to protect themselves from foreign competition, although it must be borne in mind that "business" is not monolithic. Department stores like Sears benefit from the lower prices that foreign competition brings and therefore oppose tariffs while such industries as clothing and TV manufacturers are hurt by such competition and therefore favor tariffs.[4]

If a primary goal of an interest group is to influence government policy one would quite naturally expect that they would endorse only those politicians who promise to support their demands. It can be seen that there is no such thing as "the majority" to which a politician must appeal to be elected. Rather, the goal of the politician is to pledge his support for the demands of enough interest groups to create a coalition of groups totaling a majority of the voters in an election.[5]

(b) Who Influences Government? We are now in a position to answer the question: who is most likely to influence or even control government? Superficially, it still might seem that since the relatively

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poor would be a fairly large group which politicians could not afford to ignore, the result of interest group politics would be the governmental transfer of wealth from the wealthier segments of society to the poorer. The data, however, belie this assumption. While it is no doubt true that some government programs do benefit some groups of poor, nearly all studies indicate that the *poor as a whole* do not benefit.

Although the federal income tax appears on the surface to be progressive, much of this progressivity is eliminated by loopholes. And when this is combined with the regressive nature of most state and local taxes, the overall effect is that the tax burden is "essentially proportional for the vast majority of families."[6] But government revenues are only half of the story; there are also government expenditures.

The venerable John Calhoun recognized long ago that what is crucial is not solely what one pays in taxes but what one pays in taxes relative to the government benefits one receives. And he also realized that if some groups are *net tax beneficiaries,* other groups must be *net tax losers.*[7] This means that while all income groups pay approximately the same percent of their income in taxes, the poor could still be considered gainers from the political process if the benefits they received from government exceeded the taxes they paid to it. While the evidence is somewhat mixed, this seems unlikely.

When one considers the direct effect of such programs as subsidies to businesses, and the indirect effect in terms of higher prices, of such policies as tariffs and licensing restrictions, it is likely that the overall impact of government policies is a slight transfer of wealth from the less well off to the better off. As a dramatic illustration, economist Walter Williams has determined that $250 billion is spent annually at all levels of government simply to "fight poverty." Now, if all of this were divided equally among those families with incomes below the poverty line, each poor family would receive a yearly stipend of $34,000.[8] Of course very little of this ever reaches the poor. Most of it gets eaten up in bureaucratic overhead or siphoned off by private contractors.[9] The "bucket" is clearly very leaky.

In brief, far from showing that government helps the poor, the evidence indicates the opposite: the poor tend to be the net losers in the political process. The significant question is: why are the less well off, who would appear to be a potentially powerful interest group, unable to exercise any effective control over government policy? Two related principles of the "logical" model explain this seeming paradox rather

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well: the "Iron Triangle" and "Olson's Law."

(c) The "Iron Triangle." Political scientist, Theodore Lowi, has pointed out[10] that if a particular interest group desires a particular policy it goes, not to Congress *as a whole,* but to the Congressional committee or subcommittee with jurisdiction over this policy area. Since it is normal for Congressmen to be placed on committees that deal with the concerns of their districts, those representing farming districts get on the Agricultural Committee, those representing districts or states that are primarily urban desire to be placed on, say, the Banking, Housing and Urban Affairs Committee, etc. This, of course, makes the committee quite sympathetic to the concerns of the interest groups that appear before them, and it is common for the Committee to deal with a particular concern simply by adopting the policy recommended by the interest group and then instructing the bureaucratic agency to carry it out.

Typically, the agency will then go to the interest group that initially proposed the policy for information and guidance in implementing the new policy. The Tobacco Institute and the Retail Tobacco Distributors of America, for example, desire continued or expanded government subsidies for tobacco. Since seven of the eight members of the House Subcommittee on Tobacco come from tobacco growing states, it is hardly surprising that the Subcommittee is sympathetic to this. And since, in administering the program, agencies in the Department of Agriculture have nearly daily contacts with tobacco growers it is also quite natural for them to see themselves as protectors of the interests of the tobacco growers.[11]

But the best known "triangle" is probably the "military-industrial complex." Between 1969 and 1973, 1,406 Pentagon officials left government to take positions in defense industries. Given this close connection between government and the defense industry it is not surprising that, a recent study disclosed, profits in the aerospace industry were 12.5 percent higher than for American industry as a whole. One defense corporation, in fact, averaged 245 percent profit on 22 government contracts.[12] These are only two examples where an "iron triangle" composed of an interest group, committee and bureaucratic agency, has emerged. The public is locked out and the interest group is left to, in effect, regulate itself.

The problem, in so far as the poor are concerned, is that to influence government in this fashion requires three things: time, money and expertise. Both time and money are required to put together an effective interest group; money is also required to hire the services of a lob-

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byist; and some expertise is needed to know how to manipulate the political system. Usually, the poor lack all three: by definition they do not have money; their working schedules tend to be inflexible; and since the poor tend also to be the less well-educated, they lack expertise. Consequently, as one commentator has put it, the interest group system is "skewed, loaded, and unbalanced in favor of a fraction of a (wealthy) minority." And, he adds, probably "about 90 percent of the people cannot get into the pressure system."[13]

(d) Olson's Law. Reinforcing the effect of the "iron triangle" is "Olson's Law of small groups." Isn't it possible for the poor to compensate in numbers for what they lack in wealth? After all, it's ultimately votes that count and each vote counts equally. The flaw here stems from the failure to distinguish between the *potential* and the *actual* group. For instance, since everyone is a consumer, the potential membership of a consumer group is the entire population. But the actual membership is only a tiny fraction of this. Why? This can best be seen by way of an example. Assume that a tariff on the importation of foreign cars would cost consumers $10 million per year. If we assume that about 50 million Americans will buy a car in a year the cost of the tariff to each car-buyer would be about 20¢. But since there are only three American auto manufacturers, the benefits to each would be approximately $3.5 million. It is easy to see which side would devote the greater time and resources to influence Congress on the passage of the tariff.

Thus, as economist Mancur Olson has pointed out,[14] when the benefits of a law or policy are concentrated on a particular group, while its costs are dispersed to the larger population, the interest group will have an incentive to work for its passage while the larger population will have little or no incentive to oppose the policy. This is so because it would cost each member of the larger group more in time and money to oppose the tariff or policy than he would gain by the defeat. In brief, according to "Olson's Law" there is an inverse relationship between size and political effectiveness: the larger the group the less effective it tends to be.

(e) Conclusions. Lowi's "Iron Triangle" and "Olson's Law of Groups" help to explain why the poor, as a group, have not and do not benefit from government policies. We live in an interest group system. Yet the poor lack the three elements—time, money, and expertise—needed to participate effectively. But we can go even further. Since small, well-financed interest groups are able to influence government, and since, according to the "iron triangle," they are also able, literally, to regulate

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themselves, one would expect to see many interest groups actually wanting to be regulated by government. And this is exactly what we see.

Milton Friedman has noted that "the pressure on the legislature to license an occupation rarely comes from the members of the public . . . On the contrary, the pressure invariably comes from the occupation itself."[15] Since regulatory boards typically set maximum rather than minimum prices, and since licensing boards serve to limit rather than encourage competition, their effect is to raise prices. It's been estimated that the cost of such regulation is about $130 billion per year.[16] And since the poor can least afford high prices they are the ones most severely hurt by these agencies. Thus, not only do the poor *not* benefit from government policies, as a rule, they are actually hurt by them.

Part II: *The Market and the Poor*

Before one can appreciate the manner in which the plight of the poor is eased through the workings of the market process, a few preliminary observations are necessary.

1. The Culture of Poverty

Although it is a truism to say that the poor are those without much wealth the most important thing to realize is that poverty is *not so much an economic as a sociological problem.* Professor Edward Banfield, among others, has distinguished between lower, middle, and upper class individuals on the basis of their *time-orientation.* While middle and upper class individuals are future-oriented, the lower class individual lives in and for the present. A future-oriented culture is one which emphasizes hard work and delayed gratification, i.e., discipline in the present for the attainment of a larger "payoff" in the future. Such a culture, Banfield notes, "teaches the individual that he would be cheating himself if he allowed gratification of his impulses . . . to interfere with his provision for the future."[17]

In contrast, he continues, the "lower-class individual lives from moment to moment. If he has any awareness of a future, it is of something fixed, fated, beyond his control: things happen to him, he does not make them happen. Impulse governs his behavior, either because he cannot discipline himself to sacrifice a present for a future satisfaction or because he has no sense of the future. He is therefore radically improvident: whatever he cannot use immediately he considers valueless. His bodily needs . . . and his taste for 'action' take precedence over everything else—and certainly over any work routine. He works only as he must to stay alive, and drifts

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from one unskilled job to another, taking no interest in his work."[18]

In brief, the goal for those in the middle class is "to get ahead;" to succeed; the means are hard work and delayed gratification. The goal for those in the lower class is "to enjoy now," i.e., immediate gratification; the means are to work as little as possible and to spend whatever you make as soon as you make it. These are, of course, pure types. But while all individuals are mixtures of the two life styles, a lower class individual lives far more in the present than a middle or upper class person.

Although there are many reasons for poverty, what is important is that it is found disproportionately among those exhibiting the values of the "lower class mentality." Perception of this fact has significant ramifications both for determining the *number* of those who are actually poor and the *ability* of the government, even assuming the *best of intentions*, to deal with the problem. It is to these two issues that we now turn.

2. Government Poverty Statistics

Approximately 12 percent of the population of the United States have, according to official statistics, incomes below the poverty line.[19] "The poor," however, must not be thought of as a permanent economic class. Given the affinity of a lower class individual for risk, action, and impulse behavior, it is not surprising to discover that, as Professor (now Senator) Daniel Moynihan has noted, many who are classified as poor have high risk and/or seasonal jobs and therefore that their "incomes rise and fall with changing employment conditions . . ."[20] The result is that the turnover rate among those whose income is below the official poverty line is about one-third per year. This means that if poverty statistics were measured on, say, a two or three, instead of a one-year, period, the *actual number* of poor would be significantly less.

Also, since people must pay tax on their incomes there is a built-in incentive for people to *underreport* their incomes. While this is true for all income groups and not just the poor, what is significant is that basing poverty statistics on *reported income* inflates those statistics. In testimony, a few years ago, before the House Hearings on the Economic Opportunity Act of 1964, Margaret Reid disclosed that those *reporting* incomes of under $1,000 per year were actually *spending* an average of approximately $2,500 each per year. And reinforcing this is the fact that such high-risk, action-oriented occupations as gambling, loan sharking, prostitution and the like, naturally attract a disproportionate share of "lower class" individuals. But since these activities are illegal, this income cannot be reported. Although the amount of income from

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such activities is difficult to gauge there is no doubt that it is in the billions. Regardless of what one may think of these activities one thing is clear: If such income could be taken into consideration "a considerable percentage of the 'poor' in some of the large cities would turn out to be well-off."[21]

There is no doubt that there are people in this country who are poor. Yet, it is also clear that the official figure of approximately 12 percent is highly inflated. This is due to the basing of poverty statistics on (1) one-year periods and (2) reported income rather than actual spending.

3. The Poor and the "Ideal" Model of Government

The concept of the "culture of poverty" also indicates just how limited is the ability of the government to help the poor, even assuming the best of circumstances, i.e., that the government follows the altruistic policy prescribed by the ideal model.

Consider the government policy regarding education. One of the reasons for compulsory, "free" grade and high school education, and zero or minimal tuition, taxpayer supported, state universities, was to make education accessible to children of poor families. This, so it was reasoned, would break the "cycle of poverty" by providing such children with the skills needed to enter high paying occupations. What happened was instructive. The payoffs from education lay several years in the future. Consequently, while middle and upper class individuals began attending state-run universities in droves, the poor were not particularly attracted, even when it was free. Instead, they entered the workforce and began paying taxes, some of which went to provide low-cost education for middle and upper class children at state universities.[22]

Another government program was "jobs training," which began with much fanfare in the "War on Poverty" programs of the 1960s. This too proved a failure and for the same reason: like education, the payoffs from training programs lay months, maybe years, in the future. In fact, the entire program was based on a contradiction. A program designed to train the poor for good jobs could not succeed for the same reason that the poor do not have good jobs in the first place: both good jobs and successful training are future-oriented; the poor live in the present.[23]

One final anti-poverty policy might be mentioned: the minimum wage. This is probably the most pernicious of all "anti-poverty" legislation. Wages are determined by the marginal productivity of labor. And since the poor as a rule do not have the skills that would enable them to become highly productive members of the labor force the only jobs for which they are suited are low-pay-

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ing ones. This is most unfortunate but good intentions are not enough. Since minimum wage legislation does not, and can not, increase the marginal productivity of the poor, its only effect is to eliminate their jobs. If an individual worker's marginal value to the firm is $3.00 per hour, an increase in the minimum wage from $2.90 to $3.10 per hour means that that worker will lose his job. Thus, the ones most hurt by minimum wage laws are the least productive members of society, i.e., the poor.

If the foregoing is correct, then the ability of government to eliminate poverty is most limited, indeed. It should therefore not be too surprising to discover that while the percentage of the population classified as "poor" had declined steadily for decades, its rate of decline actually *slowed down* during the vaunted government "War on Poverty" program of the mid-1960s. And, despite the continued increases in the "anti-poverty" budget throughout the 1970s, the percent of those classified as poor has remained at 12 percent for the past decade.[24]

Once the cultural basis of poverty is recognized, the government appears to have but two options: (1) to insure everyone a minimum income and/or (2) to somehow change the time-frame of the poor from a present to a future orientation. The problem with the former is that if the minimum is set high enough to eliminate poverty it would also be high enough to have a disincentive effect on those whose incomes are only slightly above the minimum. If some of this group quit not only would this increase the number of those receiving handouts from the government, it would also impose increased taxes on those who continued to work, thereby encouraging still others to quit. The result would be an ever-increasing number of "beneficiaries" living off an ever-dwindling number of producers until the whole pyramid collapsed. As Milton Friedman is fond of pointing out, if you pay people to be poor, you will have no shortage of poor people. But, if the minimum were set low enough to preserve the incentive to work, it would no doubt be too low to eliminate poverty.

But what of the second option? Since values are picked up very early in childhood, usually from the parents, the "weeding out" of the "lower class mentality" would require nothing short of the seizing, probably at birth, of all children born to "lower class" parents. These children would then be placed in homes or schools and inculcated with middle class values. While this could work, the medicine is probably far worse than the disease. At the very least such a draconian measure raises significant moral and ethical questions.

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In brief, there is next to nothing that the government, even assuming the best of circumstances, can do to help the poor: if one is poor but doesn't have a lower class mentality, he will not need government help to succeed; but if he does have such a mentality, no amount of aid will work.

4. The Market Process and the "Culture of Poverty"

Even though government statistics exaggerate the amount of poverty in America there is no doubt that there are people who are needy. Given the "culture of poverty," government efforts at dealing with this problem have been ineffective. The question therefore becomes: given this same condition, would pure market measures prove any more effective than government policies? There is reason to believe that this is so.

There prevails on the unhampered market a tendency to employ every factor of production, including labor, at its most value productive point. Since people only buy what is useful to them there can be no distinction between production for use and production for profit. Profits result from successfully supplying consumers with what they most intensely desire at the time of their evaluations; losses from the failure to do so. In the quest for profit, labor and capital perpetually flow to areas where they can reap the most lucrative returns on investment and away from areas manifesting loss. In the same way the market also determines prices for the factors of production.

Since what the entrepreneur can bid for factors is limited by his expected yield from the sale of his product, those making the most profits can make the highest bids. Thus the factors of production are channeled into the production of the most intensely desired goods. Since it is precisely the poor who can least afford the lower standard of living caused by the squandering of scarce resources, they are the economic class most benefited by the market process.[25]

But, it might be objected, this is all very well for the "able-bodied" poor, but most who are poor today have limited education and/or physical or mental handicaps. Such unskilled workers do not benefit from the market process since their productivity tends to be so low that they cannot even find jobs. This line of reasoning is based on a fallacy. The reason that such individuals cannot find jobs is not because of their low productivity but because minimum wage laws establish wage rates in *excess* of their productivity.

For example, in the 1950s and early 1960s, most elevators were operated manually and many restaurants had their dishes washed by

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hand. These jobs were filled by the unskilled: the young, uneducated and the handicapped. They did not pay much, of course, but that is just the point. As the minimum wage was raised to 75¢, then to $1.00 and then to $1.25 per hour, the building owners discovered that it *now* was economical to automate their elevators, thereby eliminating the jobs in that field. And the same was true with dishwashers: as the minimum wage was pushed upward, dishwashers were replaced with automated dishwashing machinery.[26]

The root of the problem, therefore, is not the low productivity of the unskilled worker, but the fact that the minimum wage prevents the worker from offering a "compensating difference" for his low productivity. As Walter Williams points out, "Less-preferred chuck steak can compete with more-preferred filet mignon only by offering a compensating difference—a lower price. If we had a minimum price law for steak of, say, $4 a pound, sales of chuck steak would fall relative to sales of filet." Chuck steak, in other words, would be "unemployed" *under those conditions*. The same thing applies to minimum wages. Since an unskilled worker cannot offer a "compensating difference," his labor, *under those conditions,* is overpriced and he is therefore unemployed.[27]

Thus, while a worker's productivity has a bearing on his wage rate, it would not affect his ability to get a job *provided the market were free.* Unemployment rates are especially high among the handicapped and the unskilled because of such government restrictions on the market as the minimum wage.

But, it might be objected, in the absence of the minimum wage the unskilled might find jobs. Such jobs would pay so little, however, that the workers would still have to rely on the government for assistance. This, too, is a fallacy. First, most of the lowest-paying jobs are not had by the breadwinner but by other members of the family desiring to supplement the family income. And second, wage rates, Ludwig von Mises noted, do "not depend on the individual worker's 'productivity,' but on the marginal productivity of labor."

A barber, Mises comments, "shaves a customer today in the same manner his predecessors used to shave people two hundred years ago. A butler waits at the table of the British prime minister in the same way which once butlers served Pitt and Palmerston . . . Yet the wage rates earned by all such workers are today much higher than they were in the past. They are higher because they are determined by the marginal productivity of labor. The employer of a butler withholds this man from employment in a factory and must therefore pay the equivalent of the

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increase in output which the additional employment of one man in a factory would bring about."[28]

This means that, while the unskilled worker would seldom become wealthy his wage rate would tend to be higher than commonly thought, *provided there were alternative means of employment open to him.* What is needed are more jobs available for the unskilled. But the effect of such regulations as the minimum wage and licensing restrictions is to eliminate just those jobs. Repeal of such legislation would be expected to provide adequate, but not lucrative, wages for the unskilled.

The market process would also help the poor in their capacity as consumers. Consider, for example, the "ghetto merchant." Since prices in the ghetto average about 10 percent more than prices for goods in other neighborhoods, the ghetto merchant is often excoriated for exploiting the poor. But the key question is why is the ghetto merchant able to charge, *and receive,* such prices; why don't such prices attract additional competitors? The answer is that higher prices do not mean higher profits. Ghettos are high crime areas and this means higher insurance premiums, expensive padlocks, safes, etc. The higher prices, economist Walter Block points out, merely reflect the additional expenses of doing business in the ghetto.

If, in the name of "fairness," the government imposed "equal" prices between neighborhoods, profit margins in the ghetto would be reduced, forcing the bankruptcy of many ghetto merchants. The resulting shortages would, of course, entail severe hardships on the poor. Conversely, if the market operated unimpeded, higher profit margins in the ghetto would lure additional merchants into that neighborhood, thereby lowering prices. This means that the ghetto merchant is actually a benefactor of the poor, for his presence serves to keep prices lower than they otherwise would be. And the more such merchants, the lower the prices.[29]

The same is true, Block has demonstrated, of many other commonly condemned occupations. The "slumlord" is another example. This person is usually depicted as charging exorbitant rents for dirty unsanitary apartments, located in old, dilapidated buildings. But the problem of slum housing "is not really a problem of slums or of housing at all. It is a problem of poverty." This is unfortunate but not only is he not responsible for this condition, the slumlord, *regardless of his motives,* helps the poor make the best of their bad situation.

Consider what would happen, Block asks, if slums and slumlords suddenly disappeared. If the slumlord truly harmed his tenants, then

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his disappearance should increase their well-being. But exactly the reverse would occur. For the poor would then "be forced to rent more expensive dwelling space, with consequent decreases in the amount of money available for food, medicines and other necessities."[30] But this is just what occurs when the government imposes rent controls, housing codes, and the like. Forced to charge lower rates, some landlords will go bankrupt; others will employ their property in alternative uses. The resulting housing shortage can only leave the poor worse off.

These two examples could be multiplied many times over. But they demonstrate how the unhampered market works to the benefit of the poor.

5. Care for the Truly Poor

There is one final question to be dealt with. What would happen to those few who were (almost) completely incapacitated and could not take care of themselves? Regardless of the socio-economic system, such people can be provided for only out of "surplus production." The complete elimination of government intervention would have two effects: (1) it would eliminate the poverty unnecessarily created by such government policies as minimum wages and licensing restrictions; and (2) it would increase output and thus "surplus production." There is, of course, no guarantee that this "surplus" would go to the truly needy. Yet, in 1977 Americans donated $32 billion to charity.[31] If one assumes that under a pure laissez-faire economy there would still be about 6 million poor, this would prorate out to over $5,000 for every poor *individual* in the country. And, given an even more productive economy coupled with the significantly lower taxes resulting from the dismantling of the welfare state, it is likely that this figure would be even greater under pure laissez-faire.

Conclusion

The "ideal" model depicts a government implementing policies designed to help the poor. But this model is based on the faulty behavioral assumption that people act altruistically in the "public sphere." In fact, the poor are more commonly the victims rather than the beneficiaries of government programs. Further, what is important are results, not intentions. Even assuming that the government operates as envisioned by the ideal model, the cultural basis of most poverty not only renders the government incapable of benefiting the poor, it actually increases the incidence of poverty. The market, on the other hand, has the capability of both reducing poverty to those few who are completely incapacitated, or nearly so, and creating the economic sur-

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plus necessary for the care of those few.

In short, there is every reason to believe that the poor would fare considerably better under the market than under the government approach.

—FOOTNOTES—

[1]While this model is something of a hybrid, it runs throughout much popular as well as academic literature. Jacques Maritain, *The Person and the Common Good* (New York: Schriber, 1947), and Mortimer J. Adler, *The Common Sense of Politics* (New York: Holt, Rinehart and Winston, 1971), are two, of many, philosophers for whom the notions of the "common good" and "altruistic" behavior in the political sphere are central. Also see Roland J. Pennock, *Democratic Political Theory* (Princeton: Princeton University Press, 1970), pp. 183–91, for overview of this approach.

[2]James Buchanan, "An Individualistic Theory of Political Process," *Varieties of Political Theory* (Englewood Cliffs: Prentice-Hall, 1968) ed. David Easton, pp. 25–37; and James Buchanan, "An Economist's Approach to 'Scientific Politics'," *Perspectives in the Study of Politics* (Chicago: Rand McNally, 1968) ed. Malcolm Parsons, pp. 77–88.

[3]While the economic approach to government can be traced back to the writings of Thomas Hobbes and John Locke in the seventeenth and eighteenth centuries, it was not until the mid-twentieth century that economic tools began to be applied to the study of politics in a systematic way. The landmark book was Anthony Downs' *An Economic Theory of Democracy* (New York: Harper and Row, 1957). The number of works employing this economic or "public choice" approach to the study of government has mushroomed since 1957. Two of the more important, and readable, however, are James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1974); and Gordon Tullock, *Private Wants, Public Means* (New York: Basic Books, 1970).

[4]Robert Lineberry, *Government in America* (Boston: Little, Brown and Company, 1980), pp. 278–83.

[5]The interest group model is developed in far more depth in such works as Robert Dahl, *A Preface to Democratic Theory* (Chicago: University of Chicago Press, 1956); David Truman, *The Governmental Process* (New York: Alfred Knopf, 1971). For a provocative article using economic tools to analyze interest-group politics see William Landes and Richard Posner, "The Independent Judiciary in an Interest-Group Perspective," *The Journal of Law and Economics* (December 1975), pp. 875–901.

[6]Joseph Pechman and Benjamin Okner, *Who Bears the Tax Burden?* (Washington D.C.: Brookings Institution, 1974), p. 10. Also see Robert Sherrill, *Why They Call It Politics* (New York: Harcourt Brace and Jovanovich, 1979), p. 300; and Michael Parenti, *Democracy for the Few* (New York: St. Martin's Press, 1977), p. 97. A recent study by R. A. Herriott and H. P. Miller shows the following relationship between income classes and total tax takes:

Selected Income Classes	Percent of Income Paid in all Taxes
Under $2,000	50
$ 4,000–$ 6,000	31
$ 8,000–$10,000	29
$15,000–$25,000	30
$50,000 and over	45

Cited in Murray Rothbard, *For a New Liberty* (New York: Macmillan, 1978), p. 161.

[7]John C. Calhoun, *Disquisition on Government* (Indianapolis: Bobbs-Merrill, 1953), pp. 16–19.

[8]Walter E. Williams, "Commentary," *Newsweek* (September 24, 1979), pp. 57–59. See also Thomas Sowell, *Race and Economics* (New

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York: David McKay, 1975), pp. 195–200.

[9]See Tom Bethell, "The Wealth of Washington," *Harper's* (June 1, 1978), pp. 41–60; also see Tom Alexander, "Why Bureaucracy Keeps Growing" *Fortune* (May 7, 1979). For a study that concludes that the poor are net tax payers see Gabriel Kolko, *Wealth and Power in America* (New York: Praeger, 1962). But for a contrasting conclusion see Morgan Reynolds and Eugene Smolensky, "The Post Fisc Distribution, 1961 and 1970 Compared," *National Tax Journal* (1974), pp. 515–30.

[10]Theodore Lowi, *The End of Liberalism* (New York: Norton, 1979).

[11]Lineberry, pp. 268–69.

[12]Philippa Strum, *Presidential Power and American Democracy* (Santa Monica, Cal.: Goodyear, 1979), pp. 51–54.

[13]E. E. Schattschneider, *The Semisovereign People* (Hinsdale, Ill.: Dryden Press, 1975), pp. 34–35.

[14]Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

[15]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 138–44.

[16]See "'The Regulators,' They Cost You $130 Billion a Year," *U.S. News and World Report* (June 30, 1975), pp. 24–28.

[17]Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown and Company, 1974), p. 57.

[18]*Ibid.*, p. 61.

[19]See Robert Lineberry, pp. 490–92; also see Herman P. Miller, "Inequality, Poverty and Taxes," *Dissent* (Winter, 1975), p. 45. The "poverty line" is calculated by determining how much it costs to feed a typical family of four and then multiplying that figure by three.

[20]Daniel Patrick Moynihan, "Poverty in Cities," *The Metropolitan Enigma* (New York: Anchor, 1970) ed., James Q. Wilson, p. 369.

[21]Banfield, pp. 128–29.

[22]The same holds true for programs like social security. First, since the tax is regressive, the poor pay a higher percentage of their earnings in social security taxes. Second, since the poor usually do not go to college, they tend to enter the workforce earlier than middle or upper class individuals, and therefore begin paying social security taxes much sooner. And finally, statistics show that the poor have a shorter life expectancy than other economic classes. The result is that the poor tend to pay the most into social security and receive the fewest benefits.

[23]See, for example, Reo Christenson, *Challenge and Decision* (New York: Harper and Row, 1976), pp. 79–86. Especially see p. 80: "about one-fourth of the (Job Corps) recruits stayed less than a month. Less than half stayed for six months, though strongly encouraged to stay for nine months."

[24]Miller, p. 45.

[25]See, for example, Ludwig von Mises, *Human Action* (Chicago: Regnery, 1966); and Murray Rothbard, *Man, Economy and State* (Los Angeles, 1971).

[26]See Yale Brozen, "Wage Rates, Minimum Wage Laws, and Unemployment," *The Libertarian Alternative* (Chicago: Nelson-Hall, 1974) ed., Tibor Machan, pp. 380–99; and Walter Block, *Defending the Undefendable* (New York: Fleet Press, 1976), pp. 232–33.

[27]Williams, pp. 58–59; and Banfield, p. 107–08.

[28]Ludwig von Mises, *The Anti-Capitalistic Mentality* (New York: Van Nostrand, 1956), pp. 88–89.

[29]Block, pp. 162–70.

[30]*Ibid.*, pp. 154–61. See also Sowell, pp. 184–189.

[31]In *Help: the Useful Almanac* (Washington, D.C.: Consumer News, Inc., 1978) ed. Arthur Browse, p. 356.

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Kenneth McDonald

SOCIALIST GAMES

DEAR to the hearts of socialists is the phrase "social justice." It strengthens belief in their cause and gives them a stick to beat their opponents with. Like many high-sounding phrases, however, it is never defined.

Social embraces society, its organization, and all the people who live in it. Justice is a rendering of what is due or merited, as in "Render unto Caesar the things which are Caesar's."

Who is to decide what is due to all the people or what they merit? Will Tom decide what sort of house Dick ought to live in? Will Dick determine the reward that Harry should get from his labor? Will Dick and Harry combine to order Tom's affairs? Experience tells us that any such attempts would be resisted. Good fences make good neighbors.

How is it, then, that otherwise sensible people, who are on excellent terms with their neighbors, will raise no objection to a comparable interference in their lives by politicians and civil servants they have never met, in short, by the state?

They have been led to believe not only that the state is wise and just but also that it has wealth of its own. They are encouraged to forget that it consists of politicians and civil servants who are people much like themselves and every bit as prone to error.

Social justice means what the socialists want it to mean and that, usually, is "fair shares," not equality

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of opportunity but equality of result.

Tom, Dick and Harry live by a free exchange of the goods they make or the services they provide. In the process they create the wealth of the society they live in. The money they save (financial capital) is converted into the productive capital (land, tools, machines, factories) that keeps the wealth growing.

The state's job is to set the rules of exchange and to see that they are obeyed. But when the state, which produces nothing, uses its arbitrary power to change the results, exchange is neither as free nor as productive as otherwise. The society's wealth ceases to grow because more and more of its people are assured of rewards whether they produce or not.

Suppose that the same principle were applied to games. The supporters of an unsuccessful team would demand social justice for their side and that the results be adjusted to equalize wins and losses. Without competition there would be no point in playing. Yet we have come to admit the same principle to the much more important game of life.

Baseball and other games are played to rules that everyone understands. Umpires and referees are employed to enforce them. In the game of life, too, there are rules that everyone used to understand. Heading the list is: "In the sweat of thy face shalt thou eat bread."

Now the politicians and civil servants who are supposed to enforce the rules have changed them. In the name of social justice they take what some have earned and give it to others. When it is no longer politic to increase the take they print money instead. The recipients are persuaded they need sweat no more.

But the game of life is like any other game. The challenge and the joy are in the playing. By trying to fix the outcome the state spoils the game for everyone.

IDEAS ON LIBERTY

Ralph Waldo Emerson

THERE is a time in every man's education when he arrives at the conviction that envy is ignorance; that imitation is suicide; that he must take himself for better for worse as his portion; that though the wide universe is full of good, no kernel of nourishing corn can come to him but through his toil bestowed on that plot of ground which is given to him to till. The power which resides in him is new in nature, and none but he knows what that is which he can do, nor does he know until he has tried.

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William H. Peterson

Unbinding Prometheus:

Productivity through Morality

How can we unfetter productivity? How can we unleash the inborn incentives dwelling in each and every one of us? How can we release the job-creating, prosperity-inducing genie of savings, of business investment, of capital formation?

How can we, in other words, unhamper our much hampered system of capitalism? I think the answer is, in a sense, as simple as saying, *laissez faire-laissez passer,* as Adam Smith and the French Physiocrats said more than 200 years ago. (Or saying, in five "D's"—deregulate, decontrol, despend, detax and disinflate.) We know, in other words, what has to be done. After all, our problem is not really economic; it is political, and beyond that it is moral.

Even so, I think we who believe in a free society are perhaps at a loss (I know I am) as to just how to tell all concerned—and, really, everybody is concerned—how to unravel the endless, counterproductive snarls of our mixed or, rather, mixed-up economy or, better yet, mixed-up man.

Somehow, then, we must unbind this bound Prometheus that is America—

. . . this so-called Superpower humbled by Iran, bullied by the Soviet Union, hoodwinked by the Third World, and stretched over a barrel of oil by OPEC,

. . . this nation with about the lowest personal saving, business in-

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vestment and employee productivity rates in the last decade of any nation in the Western industrial world,

. . . this pitiful seemingly helpless giant economy just wracked by unprecedented double-digit inflation and extremely high interest rates* and now plunged into its seventh recession since the end of World War II,

. . . this increasingly "underground" economy, many of whose citizens commit criminal tax evasion in unreported transactions equivalent to more than 10 percent of the GNP or currently more than a quarter-trillion dollars, according to an estimate by economist Peter M. Gutmann of City University of New York,

. . . this increasingly confiscatory economy whose central government soak-the-rich progressive income tax rates stretch from 14 to 70 percent and whose taxpayers year by year pay soak-everybody higher and higher de facto if unlegislated rates as inflation surges ahead,

. . . this socially disturbed society whose once sacred institutions of home and family are being battered by rising divorce and desertion rates and whose literature mirrors a troubled society,

. . . this increasingly criminalistic society whose serious crime rate against both persons and property has about tripled since 1960,

. . . this huge amorphous Welfare State doling out an ever larger share of its precious national income in the form of politically-entangled incentive-destroying transfer payments, payments for which the Federal Government receives no goods or services in return, payments in an amount, by the way, of some $350 billion at an annual rate currently, or about 60 cents out of the Federal expenditure dollar, up from 35 cents in 1960, today at 16 percent of the national income, up from 7 percent in 1960.

So the question is—can this once mighty industrial colossus possibly rediscover the lost genius of its own creation?

Indeed, I think the question boils down to—can America save itself?

Or maybe the larger question is—if America represents the quintessence of Western Civilization, if it represents the only military might that could conceivably dissuade the Soviets from their dream of world conquest, now advanced by the subjugation of Afghanistan, if it represents the only island of freedom and free enterprise, however emaciated, to which an increasingly Marxian world can hopefully repair—then the larger question is: can man save himself?

*The Consumer Price Index was up 18% at an annual rate in the early months of 1980, a time when the prime interest rate at major banks hit 20%.

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Productivity, you see, represents survival. It cuts to the very soul and eons-long heritage of man who, not that long ago, emerged from a cave, and began to cultivate crops and domesticate animals. Man the thinker, the human actionist, you see, is the answer to productivity—or its lack. And that answer, again, is ultimately not economic but moral. In my judgment, our age is marked by a profound moral crisis, a crisis involving a free-lunch philosophy of something-for-nothing and a rising misuse of the state to that end, hence a crisis involving the sanctity of property and the dignity and freedom of the individual. And on questions of morals, I believe we must look to the nature of man, to his goals, values and traditions, to his fears, confusions and misapprehensions. As Alfred Marshall said at the outset of his classic *Principles of Economics* some 90 years ago: "Economics is concerned, on the one side, with the study of wealth, and on the other and *more important* side, with the study of man." (My italics.)

Inordinate Action

In this discussion let me reintroduce man in his ancient and modern moral dilemma of using the state not for preservation of life, liberty and property a la John Locke but, advertently or inadvertently, for usurpation of life, liberty and property via the basically immoral process of redistribution of wealth. Let me first provide some background for my point of reference.

Again, our problem is how to unbind Prometheus or, if you wish, unfetter productivity. Recall the story from Greek mythology of Prometheus, the Titan who stole fire from Olympus and presented it to man. The act was inordinate and it infuriated the great god Zeus who punished Prometheus by chaining him to a rock. There each day an eagle tore at Prometheus' liver until he was finally rescued by Hercules.

To me the message of Prometheus—read the Western democracies—is the temptation of inordinacy. Inordinacy—the word and the idea are to be found in *The Reigning Error,* the classic 1974 work on inflation by William Rees-Mogg, editor of the *London Times*—means man's temptation to reach beyond his grasp, to seek to go beyond the rules and limits of nature and ethics, i.e., to knowingly commit wrong at the expense of right. Such inordinacy is not only fraught with frustration, it is fraught with the greatest danger to the Western world, a danger mirrored today in the high price of gold.

To get back to right and wrong: The key wrong, in my judgment, is the apparently inborn human penchant for lapsing into defiance of principle, into avoidance of restraint, into derision of tradition,

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into a philosophy of statism, into the undermining of property, into a disdain of work, into, in a word, inordinacy. Today that penchant is seen in surging crime. It is seen in swelling government budgets. It is seen in mounting waste, bureaucracy, corruption. It is seen in galloping inflation. As Rees-Mogg has noted: "Inflation is an inordinacy of money. It is money without order."

So inordinacy is a form of human folly, an abandonment of reserve, a loss of self-control, even a crime of sorts, a crime against the inherent limits of man, of nature, of law, a folly of robbing Peter to pay Paul. It is manifest in the Old Testament, which, broadly, is a message against inordinacy, a rebuke from the Lord Jehovah to the children of Israel.

Biblical Call for Discipline

The Israelites are told the story of Adam and Eve who had partaken of the Forbidden Fruit, were banished from Paradise and condemned to eternal scarcity ("By the sweat of thy face shalt thou eat bread"). They are told the story of how Cain slew his brother Abel and became a fugitive from justice, the story of the Great Flood that covered the earth and wiped out every living thing save the family of Noah and the creatures in his ark, and the story of Noah's descendents who sought to build a tower reaching up to Heaven, and how their inordinacy of this Tower of Babel suddenly made their words incomprehensible to many.

These and other Biblical stories add up to a call for discipline over self. For order. Control. Restraint. The Law of Moses proclaims dietary restrictions, including prohibition of the partaking of swine and camels. The Ten Commandments spell out limits, boundaries, restraints, moral scruples, "Thou shalt not do this . . . thou shalt not do that."

So it is in Greek mythology. Greek tragedy is concerned with the inexorable retribution of hubris, the inordinacy of extreme human pride, of daring to reach beyond the limits of man and nature.

So it was, then, that Icarus flew so close to the sun that his wings melted and he plunged to his death, that Phaethon borrowed the chariot of the sun only to be struck down by a thunderbolt from Zeus to prevent the world from catching fire, that Zeus punished the aforementioned Prometheus for stealing fire from Olympus and giving it to man.

All these myths are in the nature of admonitions, of warnings, of cautions that life is perishable, that man is fallible, that judgment is difficult, that power is corrupting, that human nature has a dark side, that the immoralist wreaks retribution sooner or later, that rob-the-rich-give-to-the-poor Robin Hood can relieve the rich merchants traversing Sherwood Forest once or twice but

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soon the merchants wise up, travel a different route, and the poor are worse off than ever, that life, you see, is inevitably bound by checks and balances, by built-in feedbacks and controls. As Emerson noted in his essay on *Compensation:* "Dualism underlies the condition of man. Every sweet has its sour; every evil its good. For everything you have missed, you have gained something else; and for everything you gain, you lose something. All things are moral."

Social Limits and Controls

In the social world, all things are indeed moral. Thus morals, ethics, values, traditions are social controls, evolved through the hard knocks of man's experience; and all systems of control have in common one simple principle: they set limits; they establish boundaries; they require norms; they condition behavior. And morals, I submit, bear heavily on the problem of unfettering our much fettered productivity.

Some limits are conventional, as in the provisions of the U. S. Constitution, or in measurements of football fields and tennis courts, the provision of so many points for a touchdown, of so many games in a set.

Some limits are physical, as in the application of physics to the engineering of a given internal combustion engine, for example, so that gasoline explosions can be converted into sustained energy that propels your car. Limits are strict. Thin the walls of the engine enough and the engine will blow up.

Says Rees-Mogg on this point: "Sanity consists in limitation; the inordinate is always insane and always ends in destruction." Or as Samuel Johnson observed in 1751 (thereby supplying the title to the Rees-Mogg book): "The reigning error of mankind is, that we are not content with the conditions on which the goods of life are granted."

On the other hand, while just laws, political and moral, set bounds to human conduct, they nonetheless allow that conduct to be free within those bounds. Man is free where he is not legally or morally prohibited; but it is up to him how he pursues that freedom, how he, to paraphrase the Declaration of Independence, pursues that happiness.

For in truth, freedom and order are two sides of the same coin. Freedom is a function of law, civil and moral. Without this rule of law, where anything goes, where nothing is sacred, where nothing is prohibited, where property and contract are unprotected, where personal responsibility counts for little, then human cooperation breaks down, and with it civilization, quite apart from productivity. Beginnings or extensions of such breakdown trends are evident in our

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times, especially in the progressive removal of limits in our once-limited system of government. The irony of this condition is that the greatest threat to freedom today is law—inordinate law, extortionate law, regulatory law, tax law, monetary law, situational ethics, warped civil and moral law transformed into a Frankensteinian monster of a Welfare State.

For, it is still argued, as it has been for millennia, that if we could only release ourselves from Moloch capitalism, from the vices of greed, avarice and selfishness, and if we would just put our trust in princes, into a benevolent state, we would be gloriously able to distribute income on the basis of justice, righteousness and fairness. Then altruism would replace naked self-interest, then all would be good and lovely in the world. Such is the message derived from a host of writers including Plato, Sir Thomas More and Karl Marx.

Theory of Public Choice

Strange, all such Brave New Worlds of which we have a historical record, all such attempts to strike down profit-seeking and elevate selflessness and the "common good," have met frustration if not disaster. Yet the siren-song of statism goes on: Private choices are obviously selfish; public choices are clearly altruistic. Or so we are told.

Indeed, a fairly new development to undo such mythology in the history of economic thought came in 1962 when James M. Buchanan and Gordon Tullock wrote their *Calculus of Consent* and expounded their "theory of public choice." All too often political scientists and professional economists have held, say Buchanan and Tullock, that "the representative individual seeks not to maximize his own utility, but to find the 'public interest' or 'common good.' Moreover, a significant factor in the popular support for socialism throughout the centuries has been the underlying faith that the shift of an activity from the realm of private to that of social choice involves the replacement of the motive of private gain by that of social good. . . ."

In other words, Buchanan and Tullock believe that people do *not* change their self-centered thinking when they shift from the marketplace to the polling booth. In both places people aim at their own advantage and interest. The rational pursuit of self-interest not only holds for individual voters but for politicians, bureaucrats and other government officials as well, whatever platitudes about the "common good" they may voice.

Thus the art of government, especially in this sanctimonious age of democracy unlimited, springs from a moral void and increasingly follows the dictum of Voltaire: to take

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from some to give to others, to engage in the trade of conferring of privileges and immunities, to fashion government into a game or racket, of quid pro quo, of protectionism, of a benefit for a vote. So vote yourself better housing, cheaper food, free medical care; and, whether citizen or legislator, vote all this in the holy name of the public interest. Or as the Romans observed in the context of "bread and circuses," *Beneficium invito non datur* (a benefit cannot be conferred on an unwilling person). Thus does statism progressively overwhelm capital creation and smother productivity.

Elusive "Social Justice"

Let us suppose, however, altruism somehow does replace self-interest as at least the nominal economic modus operandi. Let us further suppose a public-spirited government planning board is thus charged with altruism as its guiding light to fix wages and prices and allocate production. Social justice. That would be the only criterion.

Ah, but economists from Adam Smith to Ludwig Mises have pointed out the inherent inability of *just* wages and *just* prices to clear markets. Human nature and marketplace dynamics simply do not allow such clearance. Utopia is not of this earth. Planning—that sweet-sounding euphemism for socialism—is therefore vain, even though many continue to equate planning with Christian charity and brotherly love.

As Hayek wrote in his *Road to Serfdom,* the alternative is not plan or no plan. The question is, whose plan? Should each individual plan for himself, or should a benevolent Big Brother plan for him? Mises said the issue is not automatism versus conscious action; it is freedom versus government omnipotence. Said Mises: "Laissez faire does not mean: Let soulless mechanical forces operate. It means: Let each individual choose how he wants to cooperate in the social division of labor; let the consumers determine what the entrepreneurs should produce. Planning means: let the government alone choose and enforce its ruling by the apparatus of coercion and compulsion."

Unlimited Democracy

The devil of this truth lies in the *Zeitgeist* of the 20th century—a spirit of unlimited democracy, of democratic interventionism or, if you wish, interventionistic democracy. Democratic planning does not lessen the force of what Mises calls "the apparatus of coercion and compulsion," but the problem is people think, inordinately, it does. *Vox pop, vox Dei.* And so a few years ago, in a tribute to that perennial gladiator, Senator Hubert Horatio Humphrey, we passed, however emasculated, the Humphrey-Hawkins Full Employ-

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ment and Balanced Growth Act, which calls upon the President to set 5-year goals for the U.S. economy. Planning of a foot-in-the-door sort, apart from extensive interventionism, is now an official doctrine of the land.

Witness, then, inordinate democracy at work. Observe how organized minorities work their demands on cowed (or, should I say, cowardly) politicians. Observe powerful organized minorities representing farmers, veterans, blacks, educators, women, elderly (euphemistically called "senior citizens"), unions, businessmen (usually subdivided into industries), bankers, doctors, lawyers, Indians, Mexican-Americans, Italian-Americans, Irish-Americans and scores, if not hundreds, of other hyphenated and unhyphenated interest groups, exercising their public choice, ever anxious to wangle some contract, grant, tariff, subsidy, minimum wage, privilege, immunity, exception, welfare benefit or what have you from Congress and various legislatures and bureaucracies. Such wangling, such dark-sided human nature, serves to deter capital formation and individual incentive—i.e., to fetter productivity.

To be sure, all these organized minorities add up to majority rule. Naturally enough, the politician curries favor with these voting groups, frequently and ironically by giving them grants out of their very own tax money. The extent of this mutual milking process in America is seen in figures prepared by economist William A. Niskanen, Jr. of Ford Motor Company in 1976 based upon 1975 figures.

He found that there are more Americans being supported by tax dollars than there are workers in the private sector who support them. He toted up civil servants at all levels of government, members of the armed forces, the unemployed and disabled, public pensioners and those on welfare. He sought to eliminate double-counting—i.e., those on more than one welfare program. (However, he did not allow for nominally private sector employees of government contractors such as defense suppliers.) He then found that these tax dependents, including family members, outnumbered working nongovernment taxpayers by a healthy—or, rather, unhealthy—margin, of about 81.3 million tax dependents against 70.2 million private sector taxpayers. The numbers and the margin are of course greater today, five years later.

Spend, Tax, and Elect

Can there be any doubt that these tax dependents, through their elected representatives, will continue, most inordinately, to vote themselves goodies from the U.S. Treasury? Is this not the theory of

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public choice in action? Is this not but a logical consequence of public choice, of "voter rationality," of might makes right, of incipient moral bankruptcy? The situation brings to mind the remark attributed to Harry Hopkins, the intimate of Franklin D. Roosevelt: "We shall spend and spend, tax and tax, elect and elect."

As a wealth redistribution scheme, I think we can agree that the process is none too efficient. It breeds bureaucracy. It breeds red tape. It breeds social friction. It breeds the crassest politics. It breeds immorality. Moreover, as noted, it significantly destroys human incentive and capital formation—the very foundation of our productivity and well-being. And yet for all of us who think we're getting too much government, let us be thankful we are not getting all the government we are paying for.

We are paying, however, for a good deal—almost a three-fold increase in the share of personal income going for total government spending in the last half century in the U.S., from 10 percent in 1928 to 39 percent in the first quarter of 1980.

Currently, as we noted, federal government transfer payments—mainly to individuals but including grants-in-aid to state and local governments, and net subsidies to farmers and others—are running around an annual rate of $350 billion out of total current federal government expenditures of around $580 billion, or about 60 cents out of each expenditure dollar. They are greater than current defense spending of about $130 billion at an annual rate or, for that matter, total current business spending on new plant and equipment at an annual rate of about $190 billion. Indeed, current transfer payments come to more than defense and business investment spending combined.

Moreover, the easy assumption that transfer payments are zero-sum games, in contrast to voluntary exchanges which are positive-sum games, is not so. In truth, transfer payments are *negative*-sum games—for four reasons. First, government overhead to effectuate the transfers—overhead with the usual Parkinsonian tendencies. Second, the resources expended by lobbying groups seeking or defending the transfers. Third, the negative incentive effects on working and saving. And, fourth and most important, the destruction of vast *potential* capital formation.

Transfer Payments

This outlay of $350 billion in transfer payments, I need hardly remind you, is especially inordinate and politicized. Most politicians regard the outlay as sacrosanct. To seriously reduce or eliminate the outlay would be tantamount to political

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suicide. So these transfer payments are fraught with dubious morals, with a something-for-nothing syndrome, if not with quite a degree of outright corruption. For instance, Joseph Califano, when he was Secretary of Health, Education and Welfare, conceded in 1978 that some $6 billion in welfare funds could not be accounted for. How much of that sum slipped into the wrong pockets on both the giving and receiving ends of government largess?

Immorality? Corruption? Sagging productivity? Logically, then, these seem to be the implications of what has been called our Redistributive State. It was Machiavelli, let me remind you, who said politics and morals don't mix. It was Tocqueville, I believe, who first coined the phrase "democratic despotism" to describe the tyranny of the majority. It was Emerson who said democracy becomes a government of bullies. It was Henry Adams who said politics boils down to the organization of hatreds. (Witness the official assault on the oil companies in America.) It was Disraeli who said there is no honor in politics. (And not long afterwards he had the occasion to upbraid a fellow Tory on the floor of Parliament: "Damn your principles! Stick to your party!")

I cite these authorities in an effort to buttress the moral answer to our plight of sagging productivity.

For in our economic education efforts, should we not only utilize fact and theory but moral principles as well? Even Franklin D. Roosevelt felt compelled to bemoan welfare when he declared in his State of the Union Message of 1935: "The lessons of history . . . show conclusively . . . that continued dependence upon relief induces a spiritual disintegration fundamentally destructive to the national fibre. To dole out relief is to administer a narcotic, a subtle destroyer of the human spirit. . . . The federal government must and shall quit this business of relief." But quit it never did. Relief has now blossomed into that spectacular failure, the ubiquitous Welfare State. Listen to George Gilder writing on "The Coming Welfare Crisis" in *Policy Review* 45 years after F.D.R.: "Welfare now erodes work and family and this keeps poor people poor." Or to Marvin Stone, editor of *U.S. News and World Report:* "Welfarism, once planted, sinks deep roots that are difficult, if not impossible, to dig out."

Is Government Necessary?

Well, is government necessary? Most affirmatively, yes. Without it, who would serve to preclude fraud and force? Who would protect private property and the sanctity of contract? Thomas Paine described government as a necessary evil but it was Ludwig Mises who reminded us: "Government as such is not only

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not an evil but a necessary and most beneficial institution, without which no lasting cooperation and no civilization could be developed and preserved."

Is there a way out? Can we save ourselves from ourselves? Maybe. Maybe not. I believe in democratic if limited—repeat, limited—government. I believe in education. I believe education is, indeed, our only salvation. I believe we as economic educators should reassert the moral basis of freedom and free enterprise. The moral basis of government was well stated by Locke who, citing the corruptibility of power long before Lord Acton, gave the case for *limited* government. He declared that the only reason for government was for the protection of life, liberty and property. Let us, then, reaffirm that nothing is for nothing, that something is only for something, that the essential purpose of government is to provide law and order, to preclude fraud and force.

Let us say further that the market is far more democratic than anything that can be found in the political realm. Let us say that the consumer is a lot more sovereign in the marketplace than he is in the polling booth, that economically he votes every day, usually several times a day, that virtually every producer-candidate he votes for is running scared and delivering on his campaign promises on an "or else" basis.

Let us also say, in the vein of Adam Smith, that the market system is a system of social cooperation and, moreover, the Golden Rule in action. As you know, the Golden Rule says, "Do unto others as you would have others do unto you." What does the market say? It says, in the words of Adam Smith in his *Wealth of Nations:* "Give me that which I want and you shall have this which you want." The market, in other words, says, let me help you so you can help me.

In sum, unfettering productivity is a matter of unfettering freedom and free enterprise—i.e., reining in our inordinacy, regaining our moral roots and limiting once again our now unlimited government.

Lewis Stearns

IDEAS ON LIBERTY

To be useful, government must be carefully contained and limited. How it is permitted to get out of control—whether by military coup, revolution, or by the incontinent political action of a democratic majority—is unimportant; for once unconfined, government always takes the same form: the rampant destroyer of the only fuel upon which it thrives—liberty!

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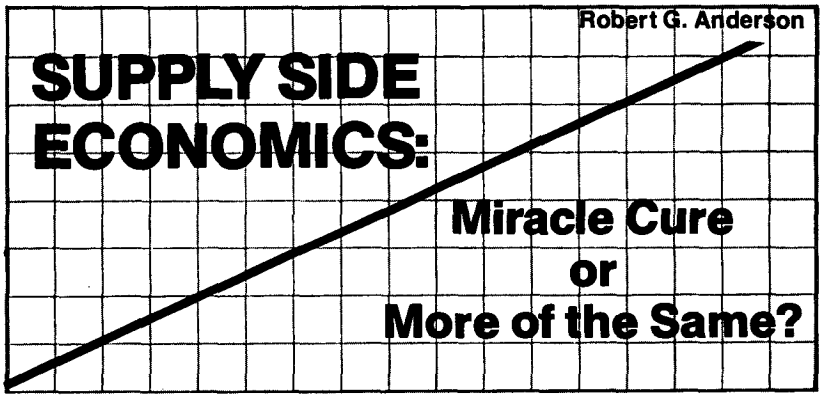

AFTER two generations of government manipulation of business structured on the dogma of demand economics, it appears that the death knell is finally sounding for the Keynesian Revolution. The claim that "we are all Keynesians now," made just a decade ago, has become an embarrassment to the government economists. In its place today is heard the rhetoric of reindustrialization and supply side economics.

Whether such changes bode good or ill is far from certain. Like all labeling of economic ideas, supply side economics and reindustrialization mean different things to different people. To government economists the terms have become just another game in semantics, as old statist programs continue to be advanced under this new rhetoric. To proponents of the free market, however, the labels of supply side economics and reindustrialization mean policies that would reduce the burden of government. Now more than ever, therefore, the proposals behind these new banners must be closely scrutinized.

Few economists any longer challenge the charge that past Keynesian policies have taken an awesome toll on the prosperity and freedom of the American people. Government intervention, in pursuit of the Keynesian Remedy, has generated immense deficit expenditures and a massive increase in the money supply in an attempt to absorb those deficits. The Keynesian doctrines have created the omnipotent state.

A mere repudiation of Keynesian economic policies is no longer enough

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today. What is also required is the dismantling of the omnipresent state that these policies helped to create. But the frightening question is whether this historical problem of our age, a growth in the magnitude of government, has yet been recognized.

Will the new rhetoric of supply side economics and reindustrialization, as viewed by free market economists, lead to less government and away from disaster? Or, failing to recognize the basic problem of overextended government, will supply side economics merely mean a change in the direction and structure of government intervention by the statist planners now in charge? This is the great issue that looms ahead.

What proponents of the free market know is that there is only good economics and bad economics. The danger of segmenting economics into categories such as supply side, demand side, labor, urban, welfare and the like is that it can, and often has, led to special interest politics that do harm to the general welfare of society.

Production for Use

That profound observation by Adam Smith that, "the sole end of productive activity is consumption," needs to be constantly recalled. The market process has demonstrated its superiority in bringing forth more of the world's goods whenever it has been free to do so. Freely acting traders are motivated to produce more because they can then consume more, recognizing that a greater supply provides them with greater demand. For both the individual and nation, supply creates its own demand since in the aggregate they are one and the same.

When government meddles with production or consumption it frustrates the ultimate purpose of all economic activity—the efficient satisfaction of human wants. Too often the end sought by government programs becomes production itself or the creation of jobs. The result is nothing more than modern "pyramid building" or formulation of meaningless employment. The wasteful consumption of productive resources in such endeavors therefore denies these resources to the satisfaction of human wants.

Especially alarming in this respect are many of the proposals being offered by political economists. Calls for all manner of new government subsidies and government directed enterprises are being heard. Vast new government spending projects are urged as the panacea for the decline in productive activity.

Stubbornly retaining their bias for government manipulation of the economy, many of these economists are promoting policies of interven-

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tionism under the new banner of supply side economics. Under their direction, the potential of supply side economics becoming nothing more than an additional rationalization for expanding government is a very real threat. Such action would miss entirely the real issue of over-extended government.

This dangerous idea of turning to government to do something still has a powerful appeal among many economists. Proponents of this brand of supply side economics and reindustrialization seem convinced that all that is required is a simple change of places at the "public trough."

The tragedy, of course, is that further manipulation of the economy pyramided on top of the present structure of government means certain disaster. A shift in the direction or nature of government intervention in no way addresses the basic problem, but can only worsen it by making government an even greater force in society. What is required instead is an abandonment of the massive governmental structure that is plundering and depriving the citizen of his productive efforts.

Regulated Decline

It would seem that after two generations of government manipulation of economic affairs, the lesson of an expanding government stifling individual freedom would be well learned. The Keynesian interventionist policies of the past have inflicted the very worst of consequences upon this nation. The Keynesian Remedy has transformed this nation from a society of free and prosperous people into a regulated society suffering from economic decline.

And the primary legacy of this failure of Keynesian economics has been the growth of the omnipotent state. After many years of government policies rewarding leisure and consumption, assaulting productive capital and taxing work effort, the magnitude of government has finally reached oppressive proportions. The result is a declining standard of living for Americans and a mood of pessimism regarding their future.

A different program of supply side economics, led by free market proponents, could be the path to freedom. Policies under the banner of "supply side economics" that reduce taxation on productive capital and work effort, that eliminate interferences and regulations among individual traders, that curtail political harassment in the marketplace, and abolish the vast transfer of wealth through the political process would drastically shrink the magnitude of government.

If "supply side economics" is perceived as this kind of alternative intellectual force, then the advance-

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ment of individual initiative as a replacement for government dominance in economic affairs and the prospects for a dynamic reindustrialization and future prosperity are great. Rather than adding just another layer of statist tinkering on the economy for different reasons, the potential for reducing government's role in society through supply side economic policies holds much promise.

What must be recognized and fully understood about the present state of affairs is that America's problems have reached crisis proportions because of the magnitude of government itself. It is not only *what* government has done but also *how much* government has done that lies at the source of this nation's ills.

A program of "supply side economics" that leads to a reduction in the size of government and a return to economic freedom is the great hope and promise for a prosperous future. Supply side economics channeled in such a direction can be the path back to freedom. If supply-side ideas that lead to a reduction in government are chosen, then we will have found our miracle cure. Otherwise, only a change in the direction of socialism in America will be the result.

It is too early to know which kind of "supply side economics" will prevail, but the hope of the future rests on choosing the right path. For it will ultimately determine whether we will be free individuals or servants to an omnipotent state.

IDEAS ON LIBERTY

"Planning" vs. the Free Market

THE WAY to get a maximum rate of "economic growth"—assuming this to be our aim—is to give maximum encouragement to production, employment, saving, and investment. And the way to do this is to maintain a free market and a sound currency. It is to encourage profits, which must in turn encourage both investment and employment. It is to refrain from oppressive taxation that siphons away the funds that would otherwise be available for investment. It is to allow free wage rates that permit and encourage full employment. It is to allow free interest rates, which would tend to maximize saving and investment.

HENRY HAZLITT

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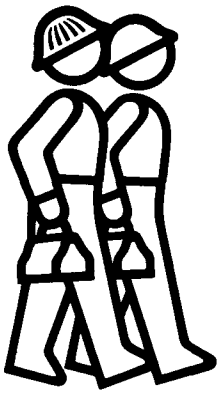
Clarence B. Carson



Government Empowers Unions

DURING the years 1932-1935 Congress passed acts which had the effect of empowering labor unions. The tendency of these acts was not only to authorize labor unions to organize and engage in collective bargaining but also to enable them in considerable measure to prevail. Thereafter, union powers were further augmented by court decisions and by rulings of the National Labor Relations Board. Many welfare programs, too, contribute to the empowerment of unions by providing aid to those unable to find employment because of government and union policies and practices.

It is generally understood that from 1932 onward the United States government set on a course of *encouraging* unionization. It is not so generally understood that it was done by *empowering* unions. Much of the burden of this article, then, will be to submit the evidence that government empowered unions by restraining itself in applying laws of general applicability to unions, used its powers in support of unions, and permitted unions to use coercion in pursuit of their own ends. That, in large, is how they were empowered.

But there is more involved here than proving that unions have been empowered. It entails a fundamental departure from the principles of good government. And when that has been grasped it is much easier to see the empowerment. Before reviewing the evidence for empowerment, then, we will examine the departure from principle that is entailed.

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The principle violated by the empowerment of labor unions lies in the bowels of the law. The principle is that government must have a monopoly of the use of force within its jurisdiction. The justification for the monopoly is to provide a common justice for all within its jurisdiction. Indeed, the provision of justice is the very justification of government.

Remedy at Law

There is another legal principle which is essential to buttressing government's claim. It is usually stated in this way: For every injury there is a remedy at law. That does not mean, of course, that every person who believes himself to have been injured will be satisfied with the remedy. Nor does it mean that every possible injury has been covered by legislative enactment or legal precedent. Rather, it means that an adequate legal system provides means for redressing grievances where actual injury can be shown. Otherwise, it would have to be admitted that it would be necessary to act outside the law to obtain justice. Such an admission is tantamount to abdication by government. Courts of equity provide a forum of adjudication in the United States for injuries not covered by positive law.

There is no place for coercive labor unions within our system of law. To empower them is to return labor relations to a state of nature, i.e., to a condition which would exist if there were no government. The meaning of the return to a state of nature can be clarified by reference to natural law theory, the theory which undergirds our own system of law. In a state of nature, it has been maintained, it would be both necessary and right for the individual to defend himself. That is, he could rightfully use force to right the wrongs against him and to redress his grievances. Obviously, in such circumstances every man becomes a law unto himself. The necessity for government is patent, at least to most of us. And, under government, the individual gives up the right to defend himself and redress his grievances by force except under exceptional and dire circumstances. In return for the surrender of this right, government undertakes to provide justice and to defend the individual in the exercise of his rights.

The use of *force* is what makes the difference. Anyone who is injured has a primary interest, of course, in seeing to it that matters are made right. He may go in person to anyone who he believes has wronged him and make request for settlement. Or, he may appoint others to represent him in seeking amends. The person who is accused with wrongdoing may treat with him or not, as it pleases him, and may enter into discussions with those ap-

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pointed to represent him, if, as, and when he will. But the aggrieved party may not force himself upon those who have supposedly injured him, nor may he resort to coercion to attain retribution. At the point where force is to be used, government must do it. Otherwise, there is a return to a state of nature—and might, not right, will rule. What is true for individuals is equally true for all associations and organizations which are private in character.

These are fundamental precepts of our law. There are formidable difficulties in the way of unions fitting within them. One such difficulty is on the question of injury. What unions have sought to achieve mainly—higher wages, shorter hours, and better working conditions—are matters about which, if there were legal remedies, unions would be largely superfluous. In short, if the injuries were demonstrable, and there were legal remedies, as in theory there must be, the only function of a union would be as a legal aid society. In fact, the remedies which unions seek are not actionable, and unions do not wish them to be.

Redress of Grievances by Direct Action

The other great difficulty for unions is that they seek to redress their own grievances by direct action. More pointedly, they use coercion in seeking to attain their ends. Labor unions have had a violent history. They have used intimidation frequently in getting members. They have used force to keep people from work when they were on strike. They seek to punish employers who do not yield to their demands by cutting off their labor supply. Moreover, they have used the boycott on many occasions to deny market access to nonunion produced goods. They mass numbers, concert their action, and use collective action to compel negotiation and acceptance of their demands by unwilling employers.

The empowerment of unions, then, is, in effect, the granting of the power by government to unions to redress their own grievances. It sanctions the private use of coercion to attain "justice." It returns the union side of labor relations to a state of nature.

The United States government did not go about empowering unions directly. It could have been done, theoretically at least, by granting them jurisdiction and conferring governmental powers upon them. For example, they could have been incorporated, as cities are by states, and granted the status of governments in labor disputes. Except, labor union leaders would not have wanted that, and the legality of it would have been subject to all sorts of challenges. Instead, the empowerment was achieved indirectly, by circum-

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vention, and had the form, if not the substance, of law.

There had been some tentative steps toward giving unions special status before 1932. One of the first was the setting up of a bureau in government to deal with labor matters. In 1884, Congress created a Bureau of Labor and assigned it to the Department of Interior. It was exclusively an information gathering agency.[1] It went through several status changes until 1913 when its head attained cabinet rank in a separate Department of Labor. The stated purpose of the department was to "foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions, and to advance their opportunities for profitable employment. . . ."[2] From the outset, however, it was more unionist in orientation than its purpose suggests. As a scholar of labor policy has said, "It is essentially a department *for* labor, organized to promote its interests primarily as envisaged by organized labor."[3] The Secretary of Labor has usually been a union leader or a pro-union man (or woman).

The War Labor Board

Another step was taken when a War Labor Board was set up during World War I. It was unionist in tendency, as indicated by its position "that the right of workers to organize and bargain collectively was not to be denied or interfered with."[4] Union membership nearly doubled between 1915-1920. Here is a description of the role of government in that:

> If we examine the figures of growth from 1917 to 1919, we shall find that the war policy of the government was by far the greatest factor, for it was the government that opened the doors to unionism in industries heretofore closed. . . .[5]

Although the government promotion of unionism generally was ended shortly after the war, it was continued in one area. A Railroad Labor Board was authorized by the Transportation Act of 1920. More, collective bargaining was encouraged by the Railway Labor Act of 1926. Both management and labor were to act by representatives chosen "without interference, influence, or coercion" by the other party.[6]

However, as already noted, it was in 1932 that the United States government began its move to empower labor unions generally. The Norris-LaGuardia Anti-Injunction Act was the opening wedge. For several decades, the injunction had been increasingly used by the courts to curb union coercion. The courts had also restrained unions from attempting to induce employees to break contracts with employers in which they agreed not to join a union (called "yellow dog contracts" by unionists).

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Section 2 of the act declared that for the worker:

> it is necessary that he have full freedom of association, self-organization, and designation of representatives of his own choosing, to negotiate the terms and conditions of his employment, and that he shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection....[7]

(The phrase, "right of self-organization," crops up frequently in the labor laws passed during these years. It is a unionist euphemism for the right to join a union other than a shop or company union. It tacitly placed the government on the side of "independent" unions.)

The main body of the Norris-LaGuardia Act placed formidable obstacles in the way of court action to restrain union conduct. Section 6 provides that neither unions nor their officers are to be held responsible for acts done by individual members of a union unless it can be shown that they participated in or authorized the acts. Section 7 describes the conditions under which courts may offer injunctive relief. In order for an injunction to be granted, the court must find that "unlawful acts have been threatened and will be committed unless restrained," though how a court may know that an act will be committed is difficult to discern. In addition to the above requirement, the court must find:

> (b) That substantial and irreparable injury to complainant's property will follow;
>
> (c) That as to each item of relief granted greater injury will be inflicted upon complainant by the denial of relief than will be inflicted upon defendants by the granting of relief;
>
> (d) That complainant has no adequate remedy at law; and
>
> (e) That the public officers charged with the duty to protect complainant's property are unable or unwilling to furnish adequate protection....[8]

The act is the fulfillment of a union lawyer's dream. It affords opportunity for almost every delaying tactic imaginable. Provision for temporary injunctions was made, but even these were now limited by special restrictions in labor cases. They could only be issued after hearings had been held and could only remain in effect for an unusually short time. It should be noted, too, that while the act only prescribed rules for Federal courts, the Supreme Court has since ruled that the Federal government has preempted the field of labor relations.[9] Thus, state courts are usually powerless in affording relief.

While the Norris-LaGuardia Act did not place labor unions and their members beyond the law, it did es-

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tablish a legal twilight zone for them. The common law rules for injunctive relief remained in effect in other cases, but in labor disputes they were drastically modified. While the law does not state that there are now to be injuries for which there is no remedy, it places the main remedy almost beyond reach.

The next step in the empowerment of unions came with the passage of the National Industrial Recovery Act. This act was the center piece of New Deal measures which were supposed to bring about economic recovery. New Deal intellectuals who drew up most of the legislation that was hurriedly passed in 1933 believed in a collectivist solution to American problems. Thus, business and labor leaders in each major industry were to devise and agree upon industrial codes for their industry. The Agricultural Adjustment Act incorporated a similar idea for farmers. Section 7(a) of the NIRA dealt with labor unions:

> Every code of fair competition, agreement, and license approved, prescribed or issued under this title shall contain the following conditions: (1) that employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing; and (3) that employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President.[10]

With employers hamstrung, with other interests empowered to take collective action, labor leaders had an unprecedented opportunity to get members. The scales were now weighted against shop and company unions, and labor leaders hurled themselves with alacrity into the task of organizing and taking over organizations. They even claimed to be doing the will of the government.

A circular distributed in Kentucky, for example, stated that NIRA "recommends that coal miners . . . organize in a union of their own choosing." In many places, the organizers went further: "The President wants you to join the union." They wanted their listeners to believe that they meant the President of the United States; if pressed, they admitted that they referred to the president of the United Mine Workers.[11]

Strikes Continued

The mining fields were not the only scene of vigorous organizing activity. The Amalgamated Clothing Workers went on a rampage of

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strikes, raids, and unionizing of the unorganized.[12] A popular tactic during this period was to call a strike at a non-union factory, set up a picket line, and demand recognition of the union. (Never mind whether the local workers wanted a union or not.) For example, in Rochester, New York, "On July 27, 1933, the Amalgamated struck the Keller-Heumann-Thompson factories for recognition. The conflict was bitter, accompanied by mass picketing, police use of tear gas, an injunction, the company's sudden recognition of the United Garment Workers, and the intervention of General Johnson."[13]

A labor board was set up to deal with problems that arose under Section 7(a), but it was hardly a match for the chaotic situation it confronted. "For approximately the first year it was the policy to avoid legal prosecution of violations; and even after cases were referred to the Department of Justice, there was little effective enforcement...."[14] In fact, the NRA was a fiasco. It was based on the optimistic collectivist assumption that given the opportunity men would abandon the pursuit of self-interest in favor of collective efforts for the common good. They did not, of course, and the contentions aroused tended toward chaos. In any case, the Supreme Court brought the whole program to a halt in 1935.

Even before this occurred, legislation was being prepared for a more comprehensive empowerment of unions. Senator Robert Wagner was its chief architect, and the act bears his name. It is also known as the National Labor Relations Act, and it was passed in 1935. It removed what remained of employer restraint on labor union organization. It accomplished this by setting forth five unfair labor practices, all directed against employers. It declares that employers are not:

> (1) To interfere with, restrain, or coerce employees in the exercise of rights guaranteed in section 7. [That is, the right to organize, bargain collectively, and engage in concerted activities.]
>
> (2) To dominate or interfere with the formation or administration of any labor organization or contribute financial support to it....
>
> (3) By discrimination in regard to hire or tenure of employment or any term or condition of employment to encourage or discourage membership in any labor organization. *Provided,* that nothing in this Act . . . shall preclude an employer from making an agreement with a labor organization . . . to require as a condition of employment membership therein....
>
> (4) To refuse to bargain collectively with the representatives of his employees....[15]

There is no doubt that the Act was phrased in legalese. There are even some attempts to give it the kind of precision we expect in a law. For example, some of the terms are de-

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fined. Here is one instance: "The term 'labor organization' means any organization of any kind, or any agency or employee representation committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work."[16] True, it is not much of a definition—a gang of bank robbers could probably qualify as a "labor organization" provided they had some disgruntled bank employees among their number—but it does have the look of being a definition and help to give the color of law to the whole.

But the National Labor Relations Act is more of an intent than a law. It is an intent to empower labor unions to attain their ends. The actual rule making (law making?) was vested in the National Labor Relations Board, established by the Act. Regular court proceedings were all but averted by having the hearings held and the facts established before the NLRB. The courts could then enforce the decisions of the NLRB or overturn them when they came before them on appeal.

NLRA Summarized

The justification of the National Labor Relations Act can be summarized this way. Congress is empowered to make laws regulating commerce. Labor disputes often lead to disruptions in commerce. The cause of these is that employers have been recalcitrant in reaching agreements with their employees through collective bargaining. How it is all supposed to work is stated this way in the Act:

> Experience has proved that protection by law of the right of employees to organize and bargain collectively safeguards commerce from injury, impairment, or interruption, and promotes the flow of commerce by removing certain recognized sources of industrial strife and unrest by encouraging practices fundamental to the friendly adjustment of industrial disputes arising out of differences as to wages, hours, or other working conditions, and by restoring equality of bargaining power between employers and employees.[17]

Industrial harmony, then, was supposed to be the fruit of the Act.

The most crucial point about the Act is this. It does not bring labor unions under the law. The theoretical justification assumes that employers are solely responsible for the troubles that take place in labor disputes. Therefore, they alone need to be restrained by law. Not a single specific restraint on labor unions is contained in the Act. No unfair labor practices by unions are prohibited. (That has been slightly modified in more recent legislation.) When the bill was being considered before the Senate, an amendment was pre-

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sented to prohibit coercion or interference with or by any person. It was defeated by a vote of 21 to 50. In the House, there was an attempt to add an amendment to prohibit coercion from any source. It was rejected.[18]

Labor unions were not empowered directly to use coercion by the National Labor Relations Act. What it did do—and this is the crux of the matter of empowerment—was to enable unions to receive the *fruits* of coercion. Specifically, the NLRB was empowered to certify unions to negotiate with employers. When it does so, it gives legal standing to what follows and the stamp of official approval to whatever union action has preceded the certification.

Compulsory Bargaining

Two lines of coercion are drawn together in NLRB certification decisions to enable unions to receive the fruits of coercion. One line stems directly from government. The National Labor Relations Board requires that employers recognize and bargain with the majority union and that non-union workers accept it as bargaining agent. This is coercive both on employers and any workers who may not belong to the union. One writer describes the situation this way: "Not only must an employer recognize a labor organization as the representative of all employees in the appropriate unit, but he must bargain collectively with the union for all the employees in the unit regardless of whether all are members of the union."[19]

The government coercion reaches its pressure peak in the requirement that the employer bargain in "good faith." When the Wagner Bill was considered by the Senate Education and Labor Committee, Senator Walsh denied there was to be any compulsion in the bargaining process. He said:

> Let me emphasize again: When the employees have chosen their organization, when they have selected their representatives, all the bill proposes to do is to escort them to the door of their employer and say, "Here they are, the legal representatives of your employees." What happens behind those doors is not inquired into and the bill does not seek to inquire into it.[20]

Whether this was a correct description of the bill or not, it has certainly been interpreted differently by the NLRB. Here is a summary of what is required by that agency:

> Employers must do more than just meet with the representatives and merely go through the motions of bargaining. To satisfy the requirement of collective bargaining, an employer must bargain in "good faith." In defining the term, the Board held that an employer to bargain in good faith "must work toward a solution, satisfactory to both sides, of the various proposals and other affirmative conduct." In another case,

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the Board declared that "... the obligation of the Act is to produce more than a series of empty discussions, bargaining must mean more than mere negotiations ..." The Board has considered counter-proposals so important an element of collective bargaining that it has found the failure to offer counter-proposals to be persuasive of the fact that the employer has not bargained in good faith.[21]

In short, an employer must make concessions or run the risk of being found guilty of an unfair labor practice. Since there are penalties for that, the employer is coerced to make offers by a government agency.

Intimidation by Unions

The other line of coercion comes from labor unions themselves. Labor unions are intimidatory by nature. Their weapon of intimidation is the use of numbers of people. Many of their tactics are aimed at frightening, cowing, and making timid any who would oppose them. The intimidation is palpable in such tactics as mass picketing; it is less dramatic in many other activities but nonetheless present. And intimidation is a mode of coercion. By ignoring the intimidatory character of concerted action, indeed, by approving the collective approach, and by according to unions the fruits of it, government empowers unions to use coercion.

That the National Labor Relations Board has played a central role in the empowerment of unions is already clear, but a little explanation is in order. There are two main reasons why the NLRB has advanced unionism. One is that many members of the Board have been pro-union. For example, one student of the subject notes that all the early appointees "were active protagonists of organized labor."[22] The other is that the laws under which it operated were heavily biased in favor of unions.[23]

The courts, too, contributed significantly to the empowerment of unions. Sylvester Petro, writing in the late 1950s, provided this summary of the Supreme Court's role:

> During the past twenty years—the period coinciding with the tremendous growth of trade unions in numbers, power, and corruption—the Supreme Court of the United States has provided a succession of privileges for aggressive, coercive union action. This succession began with a sharply contested series of decisions, releasing unions from the controls of the anti-trust laws. It continued with the Court's identification of a coercive economic weapon—picketing—with the freedom of speech which the Constitution protects. And today the Court provides a practical privilege for monopolistic trade-union practices by holding that no injunctive relief may be granted by state courts to employers and employees injured by those practices.[24]

The courts, then, completed the pattern of excluding unions from the

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application of laws of general force.

In sum, Congress, the NLRB, and the courts empowered unions in the 1930s. They did so by placing much of union activity beyond the reach of court relief, by placing government behind the union effort, and by enabling unions to reap the fruits of coercive activity. This was usually done with the blessing and often under the direction of the executive branch.

Programs to Relieve the Consequences of Unionization

There is another facet of government empowerment of unions that needs at least to be mentioned. It is government programs which facilitate unionization by relieving and diverting some of the worst consequences of unionization. The worst economic impact of unionization is unemployment. Of course, unions are not the only cause of unemployment, but the thrust of their effort is to exclude from the work force all who cannot be employed at inflated wages. So far as they succeed, they raise prices to the consumer and reduce the number who can be employed—cause unemployment. The antipathy of unions for many workers and the population generally would be transparent if many of their effects were not at least partially concealed and laid to other causes.

Government has come to the aid of unions, then, by a whole complex of programs, such as, unemployment insurance, wages and hours legislation generally, compulsory school attendance for children, subsidies for higher education, Social Security to foster early retirement (all programs to reduce the numbers of workers available), the subsidizing of consumers, and so on. Government fueled inflation long made it appear that labor unions were getting much larger gains for their members than was actually the case. These and many other programs were adjuncts to the empowerment of unions.

The empowerment of labor unions was supposed to lead to industrial peace. It did not do so. It led, instead, to turmoil, violence, the preying of the strong upon the weak, and something approaching class warfare for a time. The surge of unionism in the 1930s brought unprecedented disorder—sometimes chaos—in industrial activity. Irving Bernstein, a most thorough chronicler of labor history, said, in his book on labor in the 1930s called *Turbulent Years*, "The passage of NIRA was followed immediately by a strike wave. . . .[25] More, "In 1934 labor erupted. There were 1856 work stoppages involving 1,470,000 workers. . . . Four were social upheavals. . . ."[26] Nor did the National Labor Relations Act alter the trend. In 1937, there were nearly 5 million

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workers involved in work stoppages.[27]

Some of the most violent and disruptive strikes in American history occurred in the 1930s. Here is a description of one such outbreak:

> The decision of a local to shift from one union to the other automatically touched off a strike. . . . Under these conditions the coal fields of Illinois in 1933 supplied an arena for a shooting war between the factions. From August 1, 1932 to October 1, 1934, according to an incomplete list, 313 crimes were committed. A policeman was fatally shot in Springfield; at Peabody Mine No. 7 in Christian County two persons were killed and twelve were wounded; dynamite explosions wrecked the homes of two strikers in Kincaid; a Peabody dock boss was murdered in the same town: bombings damaged the plant of the Taylorville *Daily Breeze* which had editorialized in favor of ending a strike; houses, cars, union halls, and relief stations were dynamited; an explosion destroyed the exhaust fan at the Peabody Capitol Mine in Springfield while 350 men were underground; the coal-hauling Chicago and Illinois Midland Railroad was bombed sixteen times.[28]

Violence in the 1930s

The turbulence reached new highs in the later 1930s with the surge to form industrial unions by the CIO. The violence and turmoil was exacerbated by the large number of radicals who flocked into the union movement. The situation was this:

> Left-wing politicals of every shade and description . . . were active in many of these struggles. Communists, Socialists, Trotskyites, members of the Proletarian party and Revolutionary Workers League, New America supporters, Lovestonites, and even old line "wobblies" and Socialist Labor party members and syndicalists became involved, particularly in the centers of the new mass production industries.[29]

The radicals were often trained or experienced in obstructive and destructive tactics and eager to initiate and prolong violence. Communists were especially in the forefront of the CIO organizational drive. "Various estimates have been made of the ultimate strength of the Communists within the CIO. At minimum they controlled unions containing about 25 per cent of CIO's total membership and at maximum they wielded powerful influence in unions having another 25 per cent."[30]

What had happened was that labor relations reverted to a state of nature. It was, however, a highly modified state of nature. Organized labor was loosed to impose their own brand of private justice. They were enabled to use coercion to redress their own grievances. But unlike a pure state of nature, there was government. And government sided with the unions by restraining their opponents and enforcing the coercively arrived at agreements.

The situation was modified somewhat in the 1940s and 1950s. The

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Taft-Hartley Act set forth as unfair labor practices some union tactics, required union officials to sign an oath that they were not Communists, placed restrictions on stranger picketing and secondary boycotts, and banned the closed shop. The Landrum-Griffin Act of 1959 attempted to institute greater union responsibility toward their membership. None of these acts, however, altered in any fundamental way the fact of government empowerment of unions. Unions still operate in a twilight zone between a state of nature and civilized society.

—FOOTNOTES—

[1]Harold W. Metz, *Labor Policy of the Federal Government* (Washington: The Brookings Institution, 1945), p. 7.

[2]*Ibid.*, p. 8.

[3]*Ibid.*, p. 16.

[4]Harry A. Millis and Emily Clark Brown, *From the Wagner Act to Taft-Hartley* (Chicago: University of Chicago Press, 1950), p. 16.

[5]Philip Ross, *The Government as a Source of Union Power* (Providence: Brown University Press, 1965), p. 18.

[6]Millis and Brown, *op. cit.*, p. 19.

[7]Quoted in *ibid.*, p. 20.

[8]Henry S. Commager, ed., *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962), p. 236.

[9]See Sylvester Petro, *Power Unlimited* (New York: Ronald Press, 1959), p. 249.

[10]Irving Bernstein, *Turbulent Years* (Boston: Houghton Mifflin, 1969), p. 34.

[11]*Ibid.*, p. 41.

[12]*Ibid.*, p. 75

[13]*Ibid.*

[14]Murray Edelman, "New Deal Sensitivity to Labor Interests," *Labor and the New Deal* in Milton Derber Edwin Young, eds. (Madison: University of Wisconsin Press, 1957), p. 170.

[15]Commager, *op. cit.*, pp. 315–16.

[16]*Ibid.*, p. 316.

[17]*Ibid.*, p. 317.

[18]Millis and Brown, *op. cit.*, p. 27.

[19]Fred Witney, *Government and Collective Bargaining* (Philadelphia: J. B. Lippincott, 1951), p. 230.

[20]R. W. Fleming, "The Significance of the Wagner Act," Derber and Young, *op. cit.*, p. 148.

[21]Witney, *op. cit.*, pp. 229-30.

[22]Metz, *op. cit.*, p. 19.

[23]See Edelman, *op. cit.*, p. 171.

[24]Petro, *op. cit.*, p. 245.

[25]Bernstein, *op. cit.*, p. 172.

[26]*Ibid.*, p. 217.

[27]See Fleming, *op. cit.*, p. 132.

[28]Bernstein, *op. cit.*, p. 63.

[29]Bernard Karsh and Phillips L. Garman, "The Impact of the Political Left," in Derber and Young, *op. cit.*, pp. 97–98.

[30]*Ibid.*, pp. 107–108.

Union Power and Government Aid

IDEAS ON LIBERTY

THERE is a definite relationship between union membership and union power. Growth of union membership and increase of union power come from the same source: special privileges and immunities granted by governments.

SYLVESTER PETRO

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Robert Bearce

AGAINST ALL ENEMIES

Part III

OUR CONSTITUTION and the principles of freedom are being steadily eroded today. Too many Americans evidently disagree with Thomas Jefferson's basic political philosophy: "Every man wishes to pursue his occupation and to enjoy the fruits of his labors and the produce of his property in peace and safety and with the least possible expense. When these things are accomplished, all the objects for which government ought to be established are answered."

According to Jefferson and other Americans who fought for freedom, the purpose of government was to assure the God-given rights of individuals to work freely, create, build, invent, succeed, fail, and plan their own lives . . . without needless government interference. Government should intervene to prevent, prosecute, and punish crime. Government was also responsible for organizing the defense of the nation from foreign aggressors. The two major roles of government were designed to allow free individuals to rise to the heights of individual potential consistent with their own abilities, energy, will power, and personal accountability.

The United States Constitution has worked very well in the past as a bulwark for personal liberty. Now, though, we are faced by a loss of individual rights and a growth of government power. Two views of the

In this three-part series, Robert Bearce of Houston, Texas identifies the basic principles of limited government as set forth in the Constitution of the United States. He shows how we have forsaken many of the basics, and points the way toward a restoration of freedom.

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Constitution by two past Presidents illustrate a partial cause for our present difficulties.

President William Taft wrote that: "... the President can exercise no power which cannot be reasonably and fairly traced to some specific grant of power ... in the Constitution or in an act of Congress."

Taft's *strict* interpretation of the Constitution contrasts with President Theodore Roosevelt's *liberal* interpretation of the powers of the Presidency: "... My belief was that it was not only his (the President's) right but his duty to do anything that the needs of the nation demanded unless such action was forbidden by the Constitution or by the laws."

Over the years since President Theodore Roosevelt wrote about the Presidency, the "liberal" interpretation of the Constitution has gained an ever increasing acceptance by all three branches of the government—executive, legislative, and judicial. This "liberal" concept of government authority tramples upon the Tenth Amendment of the Bill of Rights: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The problem is twofold: (1) "WE THE PEOPLE of the United States," as stated in the preamble, have deserted the Constitution, (2) The people's elected and appointed officials have debased the Constitution. If we truly value what freedom we have left, and if we wish to regain what rights we have lost, we must understand the destructive mentality or philosophy that has gripped so many Americans.

The Santa Claus Complex

First, a greater number of Americans are accepting what has been called the "Santa Claus" complex. Some people might want to term it the Big Daddy or Great Uncle Sam complex. At any rate, when citizens look upon the federal government as Santa Claus, they will continue to expect supposedly "free" presents from the government.

While large numbers of businesses, special interest groups, professions, and average citizens are looking to the federal Santa Claus for goodies, their elected officials have an affliction called the "Robin Hood" complex. Actually, the Santa Claus mentality and the Robin Hood philososphy work together to assault the Constitution. In order to play Santa Claus and give to the citizenry federal subsidies, grants, and other aid, government officials must also assume the role of a benevolent Robin Hood.

They do this with a great deal of enthusiasm and sense of morality. Before they can distribute gifts to different segments of the populace,

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they must first take money from other people. Thus, government plays Robin Hood, taking from the "rich" and giving to the "poor"—the "poor" classified as whomever the federal government so chooses.

The fact is that government cannot create wealth. It cannot give away anything it hasn't first confiscated from the "rich" (industries, businessmen, hard-working individuals) or the citizenry as a whole. Robin Hood does this through taxation. The only other way the federal government can pay for its handouts is simply to create money it cannot or will not bring into the Treasury through taxation. When it creates the new money from the federal printing presses, we suffer inflation.

Although the average citizen decries inflation and excessive taxation, he continues to vote for more government interference in the economic and social life of the United States. Legislators are quite willing to play the parts of Santa Claus and Robin Hood. To do so is the best way to get elected and reelected. They learn by experience and continue to promote the idea that government is motivated by compassion and humanitarianism.

To some extent that is true. A large number of public servants are probably motivated by a desire to do good. Although playing Santa Claus is mostly a matter of self-interest, many government officials honestly believe they are doing what is best for the citizenry of the United States after they assume public office. They believe they can use the authority of government to devise and then carry out plans to bring "social justice," good housing, health care, and the like, to the people. Frankly, they feel that government has a moral obligation to manage our lives. Their goodness in our behalf, however, profanes the Constitution.

Instead of showing loyalty to the principles of the Constitution—limited government and personal liberty—they attempt to create the "good society" according to their own designs. Again, their intentions are good, but they still refuse to have faith in the individual. They really do not think individuals are capable of achieving dignity, economic stability, and justice on their own—within the framework provided by the Constitution.

Holding Officials Responsible

Those government leaders who scorn the principles of the Constitution should be held accountable. On the other hand, the question should be asked as to who put such Robin Hoods in office. The American people, of course, are the ones who vote for the politicians who head for Washington, D.C., to continue the task of planning and regulating our lives. A nation-wide survey reported

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that 94 per cent of those surveyed believed that the main duty of a Congressman was "making sure his district gets its fair share of government money and projects."

The survey shows that Americans are quite willing to accept the idea that their elected officials are in the business of distributing monies from the federal Treasury. Apparently, few citizens think the responsibility of their Senators and Congressmen is to cut back on the growth of government.

We—legislators and average citizens—need to reexamine the Constitution and realize the extent to which we have degraded it. We should think about a proposal made by Nobel Prize-winning economist Milton Friedman. Considering the fact that people in government are trying to do good with other people's money, Dr. Friedman suggests that we need an eleventh amendment to the ten already in the Bill of Rights. The new amendment would ensure that every individual would have the right to do good—*with his or her own money.*

In reality, we already have the right to do good for others at our own expense, although it can be said that this right is being hindered due to oppressive taxation and government-sponsored inflation. We cannot very well help other people if we do not have the money to do so.

Regardless of stifling taxation, our right to help others is being neglected or rejected as we place charity, human concern, and humanitarianism in the hands of the government.

Parental Guidance

For example, some Americans are concerned that advertising and some children's programming on TV is bad for the kiddies and the stability of the family. Advertisers, they say, take advantage of innocent young viewers. The youngsters are brainwashed and led astray to clamor for toys, candy, or other items that they do not need. The duped children are more or less forced by the commercials to demand the products seen on TV.

Thus, we have the tragic spectacle (as some Americans see it) of boys and girls strong-arming their helpless parents into buying the trivial products advertised on TV. If the parents should refuse, havoc arises in the family. Adults and children suffer emotional trauma. If the parents agree to the children's demands, then the families waste money on the supposedly useless products.

The answer for the above problems, as suggested by those who dislike the quality of children's programs and advertising, is either government regulation or "social conscience" on the part of business. "Social conscience" means that com-

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panies that manufacture children's products should sponsor their programs without showing ads for toys, cereals, and other products. We could then have commercial-free children's TV . . . which would eventually mean government subsidy of children's programs at the taxpayers' expense.

Now then, if you ask the proponents of government intervention whether or not they allow their own kids to watch what they, the parents, say is bad children's TV, they might very well answer with an emphatic "No!" That being the case, we should ask such people why they feel so superior to their fellow Americans. In other words, why is it that they presumably have enough concern for their children to turn off the booby-tube, but other parents apparently cannot make the same decision in behalf of their own children?

Other questions we might ask are these: If changes really need to be made in children's TV, why don't those who want the changes use their own money to establish a private foundation to bring about whatever improvements they feel are necessary? Why don't those concerned about little Johnny's appetite for candy launch a nationwide campaign—paid for out of their own pockets and through voluntary contributions—to inform parents that they are perfectly capable of doing two things: (1) saying "No!" to their children, and (2) turning off the TV set or making certain that their children do so.

The fact is that we will always have our goodhearted, well-intentioned crusaders who want to bring about what they believe to be a better society. Their moral failure lies in the fact that they basically have faith only in their *own* intentions and the power of government to implement those good intentions for *all our good* . . . regardless of whether we agree or not.

Those who support more government regulations, "guidelines," and laws tend to believe that the ordinary citizen is not capable of making intelligent decisions on his own. This distrust of individual responsibility illustrates some of America's alienation from the Constitution. The principle of limited government authority is spurned. Individual freedom and the Bill of Rights are belittled.

The Bill of Rights

The Bill of Rights was meant to be a steadfast safeguard to individual liberty. These ten amendments were *prohibitions* against excessive government power. They upheld individual rights against government interference. Now, though, an increasing number of Americans are accepting and encouraging a different concept of human rights. They

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would accept a new bill of rights that would not *restrict* government power, but instead authorize more government intrusion into our daily affairs.

As the federal government expands and becomes more intensive, we proceed further down the path toward servitude. Willingly or unknowingly, most Americans accept their fate. Our future was somewhat prophesied by James Madison: "There are more instances of the abridgment of the freedom of the people by gradual and silent encroachments of those in power than by violent and sudden usurpation."

Madison realized that freedom was threatened by the gradual, often deceptive growth of government power. Whenever government steps beyond its constitutional duties, society begins to deteriorate. When government tries to arrange and direct society in defiance of the Constitution, a type of class warfare begins. As government attempts to pay for its various programs, it must resort to increased redistribution of the wealth. Society and politics become a battle ground where everyone demands "his share" of the funds in the federal Treasury.

Along with the continual struggle by lobbyists, special interest groups, and other beneficiaries for a cut of the federal pie, there is a corresponding loss of integrity. When the government takes from some (or all) to give to others, the redistribution of wealth hurts all segments of society—both the productive and the not so productive.

For example, a businessman finds himself in financial trouble due to his own incompetence or mismanagement. He looks to the federal government for help, and he receives it. A second economic crisis hits him, and he again finds himself rescued by government aid. Soon, he has lost his sense of self-responsibility. He has become dependent upon a paternalistic government. In this state of dependence, there is very little guilt about having his own failure subsidized by money taken from the productive elements of society.

Dependence and Servitude

Likewise, the productive people—whether they be corporations or individuals—slowly lose their sense of accountability, initiative, and self-reliance. They ask themselves why they should continue striving so hard, only to have the fruit of their labors taxed away for the benefit of others. Thus, there is a growing tendency for the thrifty, energetic, and hard-working people in society to work less and eventually become dependent upon government.

Government intervention is the first step towards dependence upon government. After dependence comes servitude.

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If we are to escape the servitude of a socialistic type of government, we must act upon the advice of Patrick Henry: "No free government, or the blessings of liberty can be preserved to any people but by a firm adherence to justice, moderation, temperance, frugality and virtue, and by a frequent recurrence to fundamental principles."

For the United States in the 1980s, "fundamental principles" should be the Constitution. Although the work of the Founding Fathers in 1787 is far from perfect, the Constitution does reflect an honest, firm adherence to certain basic truths about freedom and the purpose of government. One of the worst mistakes we can make is to believe that the Constitution is not relevant for today. The opposite is true.

More than ever, we need to uphold the Constitution with the realization that it is based upon certain wise, unchanging principles—principles that should be understood and obeyed today as much as they were during Madison's day. The Constitution is not an outmoded document to be shrugged off as something that cannot or should not direct our political, economic, and moral life today.

Regardless of how durable the Constitution is, it cannot protect freedom unless "WE THE PEOPLE of the United States" heed George Washington when he said: "The preservation of the sacred fire of liberty and the destiny of the republican model of government are justly considered, perhaps, as deeply, as finally, staked on the experiment intrusted to the hands of the American people."

Identifying Those Who Corrupt the Constitution

If we have an understanding of how the Constitution can protect our freedom from government encroachment, we must first identify those individuals and groups who are corrupting the Constitution. Are they federal bureaucrats who place their faith in larger and more powerful government? Yes, but who puts them in office in the first place?

"WE THE PEOPLE of the United States"!

Before we can think about the bad guys holding public office, we have to ask ourselves how unfaithful we have been to the Constitution. The average American's desire for urban renewal, aid to education, price supports, and other handouts is the root of oppressive government. When we stop asking for needless government intervention, the constitutional renegades in Congress will not be reelected.

As soon as we have our own houses in order regarding allegiance to the Constitution, we can turn our attention to those people in government who want to continue spending our tax money, regulating our lives, and

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seducing other segments of society with their programs of government aid. Having a profound understanding of the Constitution, we can judge how well our elected and appointed officials are living up to their oath of office.

Sometimes it is possible to detect hostility toward the Constitution simply by knowing what government officials say in speeches, interviews, press conferences, or by the written word. More important, however, are their voting records and daily actions in office. Can your own Congressman and Senators answer a truthful "I do" to the oath of office?

Do you solemnly swear that you will support and defend the Constitution of the United States against all enemies, foreign and domestic; that you will bear true faith and allegiance to the same; that you take this obligation freely, without any mental reservation or purpose of evasion; and that you will well and faithfully discharge the duties of the office on which you are about to enter: So help you God?

Politicians come and go. New Congresses are sworn in as our political process carries on year by year. New administrations take over, and new Cabinets are appointed. Regardless of who our elected and appointed officials are—whether they be defenders or betrayers of the Constitution—the tasks before us always remain the same. We are to comprehend the meaning of the Constitution and uphold it by accepting responsibility for planning our own lives. Once our own allegiance to the Constitution is firm and true, we can scrutinize our government officials with Thomas Jefferson's wisdom in mind:

"In questions of power let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution."

IDEAS ON LIBERTY

Thomas Babington Macaulay

OUR RULERS will best promote the improvement of the people by strictly confining themselves to their own legitimate duties—by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their natural reward, idleness and folly their natural punishment—by maintaining peace, by defending property, by diminishing the price of law, and by observing strict economy in every department of the state. Let the government do this—the people will assuredly do the rest.

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Planning for Freedom

"Supply side economics" is the current rage. In essence, it is simply J. B. Say's old "law of markets" restated. What the supply-siders are saying is that production must come before consumption, which is a truism. But, looking at economics as a totality, the processes of production and consumption are a seamless web. The funds laid out for production—wages, raw material purchases, interest, dividends—constitute the buying power that eventually clears the market. The effort to whip up an "effective demand" by issuing paper tokens unrelated to production is supererogatory, and results in inflation as the extra "money" joins the chase for the given supply of goods.

There can, of course, be an overproduction of some things in relation to what consumers actually want at a given price. This means that the workings of Say's Law will be ragged as enterprisers correct for their mistakes in judgment. But this does not change the fact that commodities are paid for ultimately by other commodities, often at changing ratios. Money plays an intermediary role. The important thing is to avoid public policies that keep enterprisers from bringing an expanding supply of goods into being in the cheapest possible way.

This is what the supply-siders are now saying in Washington as they look for tax policies that will offer the least discouragement to business. But it is an ancient wisdom. Ludwig von Mises was talking "supply" as long ago as 1950 when he published his remarkable essay, "Lord Keynes and Say's Law," in *The Freeman*. I remember reading the essay in a board of editors' meeting in great excitement. My wonder now is that this happened thirty years ago.

The essay subsequently went into a Mises collection, *Planning for*

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Freedom, an expanded fourth edition of which is now available. Four new essays have been added to the original thirteen, and the book also includes other extra dividends. There are Murray Rothbard's study, "The Essential von Mises," which places its subject in the Austrian School tradition, and separate salutes to Mises by Henry Hazlitt, Gottfried Haberler and Albert Hunold.

New Chapters by Mises

The four new essays, all of them vintage Mises, are "The Gold Problem," "Capital Supply and American Prosperity," "Liberty and its Antithesis," and "My Contributions to Economic Theory." In "The Gold Problem," printed in *The Freeman* in 1965, Mises made the accurate prediction that the American Treasury would continue to lose gold if deficit spending did not stop. Americans, of course, were forbidden to own gold in 1965, but foreigners could legally draw it out from what had once been its American haven.

In the essay on "Capital Supply and American Prosperity" Mises kept hammering at a thesis that has only recently caught the attention of a Congress that has finally been brought to admit that capital gains taxes are self-defeating. Long ago, from his vantage points in Vienna and Geneva, Mises could see that America was the most prosperous nation in the world because "its per-head quota of capital invested" was higher than elsewhere.

Coming to this country to escape Hitler, Mises was appalled at the way we were deserting our own wisdom. His "Capital Supply" essay was written in 1952. It constituted a warning that if the federal government continued to prevent capital accumulation by its tax policies and its inflationary spending, our productivity would decline and our standard of living would suffer accordingly.

Planning for Freedom by Ludwig von Mises. Expanded fourth edition, 280 pages, paperback. Published by Libertarian Press, P. O. Box 218, South Holland, Illinois 60473. Also available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533. Price: $6.00.

Mises did not make the mistake of attributing our traditional prosperity to the physical resources of the American continent. He said "capital is more plentiful in America than it is in other countries because up to now the institutions and laws of the United States put fewer obstacles in the way of big-scale capital accumulation than did those foreign

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countries." Morality, too, had something to do with it. "The climate of opinion in which capitalism could thrive," said Mises, "was characterized by the moral approbation of the individual citizen's eagerness to provide for his own and his family's future. Thrift was appreciated as a virtue no less beneficial to the individual saver himself than to all other people."

In his "My Contributions to Economic Theory" Mises correctly cites his *Socialism,* which dates back to the early Nineteen Twenties. What Mises proved in that book was that "an economic system, where there is no private ownership of the means of production, could not find any criterion for determining the values of factors of production and therefore could not calculate." Socialism, in short, flies blind.

Mises was never impressed by economic models that depend on the manipulation of past statistics, which inevitably ignore the capacity of individuals to change ground in their future choices. "In the libertarian system," so Mises wrote in "Liberty and its Antithesis," "every individual is a moral person, that is, he is free to choose and to act and is responsible for his conduct . . . Where the authoritarian system is fully established, as was for instance the case in the empire of the Inca in pre-Columbian America, the subjects are merely in a zoological sense human; virtually they are deprived of their specifically human faculty of choosing and acting and are not accountable for their conduct."

Beware Econometric Models

Whether he wrote in German or in English, Mises always had a magnificent verbal felicity. Like others of the Austrian School, Mises knew mathematics but was not impressed by any economic methodology that (to quote Murray Rothbard) "all but crowded out language or verbal logic from economic theory." Mises thought mathematical equations were only useful in describing a never-never land of "general equilibrium."

Rothbard, in his explanation of Mises' distrust of mathematics, says that "no one has ever discovered a single quantitative constant in human behavior, and no one is ever likely to, given the freedom of will inherent in every individual." The human development of high-speed computers has led to supposedly sophisticated econometric models. Alas for the usefulness of these models, the lack of confirmable constants to feed into them has made for a sorry record of econometric forecasting.

Relying on verbal logic and his analytical study of business-cycle theory, Mises correctly predicted the coming of the Great Depression when Irving Fisher, for example, was

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proclaiming a "New Era" of indefinite prosperity based on the manipulation of governmental central banks. There is an odd contradiction involved here. Mises knew that bad mistakes would accompany a wild credit boom. This is a "constant" factor in a credit cycle. But, since the mistakes are individual and show up only in retrospect, they can't be "timed" for computer use. That is why the econometrist's supposed precision should give way to the Austrian School's sheer common sense.

THE GOLD CLAUSE: WHAT IT IS AND HOW TO USE IT PROFITABLY
edited by Henry Mark Holzer
(Books In Focus, Inc., 160 E. 38 St., Suite 31B, New York, N.Y. 10016)
381 pages ■ $19.95 cloth

Reviewed by John A. Sparks, Associate Professor of History and Director of the Institute on Public Policy and Private Enterprise at Grove City College in Pennsylvania

LAW PROFESSOR Henry Mark Holzer has compiled an anthology of important articles about the legal standing of gold clauses in private and public contracts. A gold clause is the contractual requirement that a debt be repaid in a specified quantity of gold or in an amount of currency equal to that quantity of gold. Gold clauses existed at least as far back as the latter middle ages, and though their formulation has differed from age to age, they have been used for one reason only—to protect contracting parties against debasement of coin or currency by the state.

The book points out the significant difference between the Legal Tender Cases (1871) and the Gold Clause Cases (1935). The 1871 Cases did not rule out the use of gold clauses in private contracts, although they did uphold the issuance of Civil War greenbacks as constitutional; gold clauses continued to appear in all long-term contracts and obligations, as well as in many shorter term agreements. The real damage done to sound money by the legal tender decisions was not apparent until 1935 when they were relied upon by the U.S. Supreme Court to uphold the Congressional resolution prohibiting gold clauses in contracts, private and public.

Readers interested in the Constitutional protections for hard money will gain much from reading chapter 5 which contains the *anti-gold clause* analysis of Angus D. MacLean who had the primary responsibility for the government's brief in the Gold Clause Cases, as well as Associate Justice James C. McReynold's short, but penetrating dissent which includes his now famous exclamation: "The Constitu-

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tion as many of us have understood it, the instrument that has meant so much to us, is gone."

Holzer's last chapters take up, in turn, the revival of gold ownership in 1974, and the relegalization of *gold clauses* in 1977. But, a troublesome question remains. Why, if gold clauses are now legal once again, are citizens not generally making use of them to avoid the ravages of inflation?

Holzer provides one legal answer to that question. Long-term loan contracts which require the borrower who repays in paper currency to repay *more* of the cheaper dollars, may violate state usury laws even where there has been a waiver of the defense of usury in advance. Holzer suggests a way that such a problem can be overcome by drafting a clause which states that "a given number of ounces of gold (either bullion or coins) of a certain fineness is being loaned and that exactly the same weight and fineness will be repaid."

In just forty-seven years, ignorance of gold clauses and the gold standard has become widespread. But, perhaps, the financial necessities of this Age of Inflation and the rebirth of knowledge about gold clauses, to which Professor Holzer has made such an important contribution, may revive these old contractual barriers to monetary tyranny. ◆

FARM AND FOOD POLICY
Issues of the 1980s
by Don Paarlberg
(University of Nebraska Press, 901 North 17th Street, Lincoln, Nebraska 68588) 1980
338 pages ■ $16.50 coth

Reviewed by Richard W. Wilcke, President of the Council for a Competitive Economy, Washington, D.C.

AMERICAN agriculture has always been an enigma for those advocating a free-market economy. Farmers and ranchers are steeped in a long tradition of supply and demand, respect for private property, and fierce independence. Yet the ever-present prejudices toward small, family-owned farms has rendered agriculturists helplessly susceptible to all kinds of institutionalist theories and perfect-competition models.

As a result, since World War I the public policy of American agriculture has remained continuously and increasingly interventionist even as farmers have tried to retain their independence. Through the USDA, the federal government underwrites most agricultural policy research, directs most agricultural economics, and pays much of the salary burden of land-grant university specialists and local extension agents.

Either by accident or by grand design, likely the latter, what has resulted has been a widespread and ef-

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fective major network of avidly nonpartisan and avowedly nonideological apologists and defenders of government's ubiquity. It should not be surprising that agricultural policy debates are narrow. Nor should it surprise anyone that outspoken champions of laissez faire are few and far between.

For some three or four decades, Don Paarlberg, professor emeritus of agricultural economics at Purdue University, has been a welcome and somewhat lonely exception to the rule. From his first writings while still getting his doctorate at Cornell to his latest book, he has been a believer in a market-oriented agricultural sector in the U.S. economy.

His *Farm and Food Policy* attempts to paint a broad picture of the policy options open to U.S. policymakers during the decade just getting started. In the most reasonable and conciliatory tone, Professor Paarlberg leads readers to logical, usually market-oriented, conclusions. From his Washington experience in the USDA and as an advisor to President Eisenhower, he retains an acute awareness of political pressures and the role of special-interest groups. The groups taking interest in farm and food policy are not limited to farmers.

While some students of economic freedom, this reviewer among them, might have preferred a more straightforward and less compromising defense of the free market, Professor Paarlberg's book is a welcome addition to the shelves of books now dealing with food policy. Perhaps, by a balanced and comprehensive view, Professor Paarlberg has helped to inject more reason and less prejudice into farm policy debates. ●

THOSE GASOLINE LINES AND HOW THEY GOT THERE

by H. A. Merklein and William P. Murchison, Jr.
(The Fisher Institute, 6350 LBJ Freeway, Suite 183E, Dallas, Texas 75240)
129 pages ■ $5.95 paperback

Reviewed by Brian Summers

STANDING in a gas line can be a frustrating experience. But because most Americans didn't understand what caused the long lines of 1973–74 and 1979, they directed their anger at the wrong people.

The blamed the oil companies. But oil companies don't earn profits by holding prices below market-clearing levels. And they don't make money by allocating gasoline to rural areas while supplies in the cities are drying up.

The federal government does these things. It took government intervention to disrupt the flow of gasoline and create the maddening lines.

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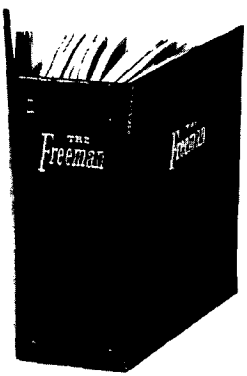
Now that the Department of Energy has relaxed its controls over the pump price of gasoline, supply and demand are again in approximate balance, and the lines have disappeared. However, Merklein and Murchison show, our basic energy problems persist. The Department of Energy continues to discourage natural gas exploration by controlling the wellhead price. The same holds for crude oil. On top of this, Congress has imposed a "windfall profits" tax (actually an excise tax) on the oil companies.

These misguided policies are a political response to the misdirected anger of the American people. When the public understands the causes of our energy problems, these policies will be changed. *Those Gasoline Lines and How They Got There,* a well written, carefully documented analysis of the energy crisis, is an excellent place to begin that understanding. ●



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A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial influences which are at its disposal. The unnatural way of spreading ideas must be opposed by the natural one, which goes from man to man and relies solely on the truth of the thoughts and the hearer's receptiveness for new truth. . . .

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